



Universal

est. 1918



ANNUAL  
REPORT

2021

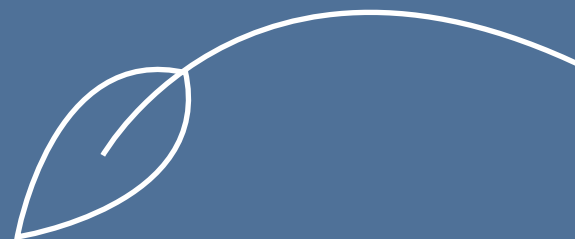




For over 100 years, Universal Corporation has been finding innovative solutions to serve our customers and meet their agri-products needs. We built a global presence, solidified long-term relationships with customers and suppliers, adapted to changing agricultural practices, embraced state of the art technology, and emerged as the recognized industry leader.

Today, we are a global business-to-business agri-products supplier to consumer product manufacturers, operating in over 30 countries on five continents that sources and processes leaf tobacco and plant-based ingredients. Tobacco has been our principal focus since our founding in 1918, and we are the leading global leaf tobacco supplier. Through our plant-based ingredients platform, we provide a variety of value-added manufacturing processes to produce high-quality, specialty vegetable- and fruit-based ingredients for the food and beverage end markets.

Universal Corporation has a long history of operating with integrity, honesty, and a focus on quality. We are a vital link in the leaf tobacco supply chain, providing expertise in working with large numbers of farmers, efficiently selling various qualities of leaf to a broad global customer base, adapting to meet evolving customer needs, and delivering products that meet stringent quality and regulatory specifications. Going forward, we will build on our history by seeking opportunities in both tobacco and plant-based ingredients to leverage both our assets and expertise. We will continue our commitment to leadership in setting industry standards, operating with transparency, providing products that are responsibly-sourced, and investing in and strengthening the communities where we operate.



# FINANCIAL HIGHLIGHTS

in thousands, except per share data

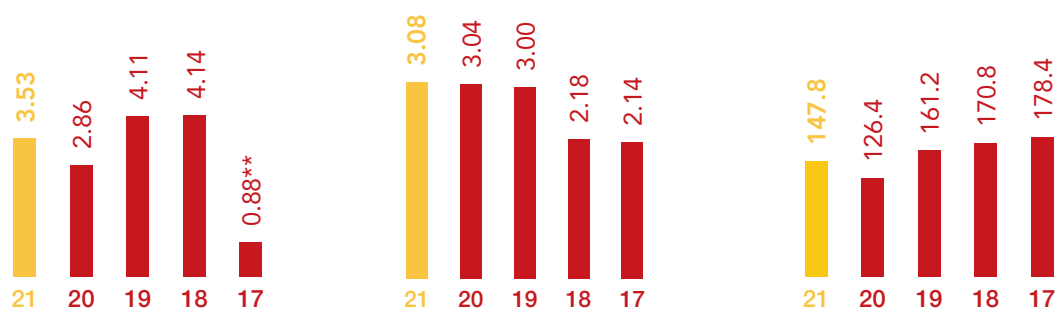
	<b>Fiscal Year Ended</b> March 31, 2021	<b>Fiscal Year Ended</b> March 31, 2020	<b>Fiscal Year Ended</b> March 31, 2019
<b>OPERATIONS</b>			
Sales and other operating revenues	\$ 1,983,357	\$ 1,909,979	\$ 2,227,153
Operating income	147,810	126,367	161,169
Segment operating income	169,199	138,121	186,772
Net income	96,314	78,003	110,134
Net income attributable to Universal Corporation	87,410	71,680	104,121

## PER COMMON SHARE

Net income attributable to Universal Corporation*			
common shareholders—diluted	\$ 3.53	\$ 2.86	\$ 4.11
Dividends declared	3.08	3.04	3.00
Market price at year end	58.99	44.21	57.63

## AT YEAR END

Working capital	\$ 1,262,201	\$ 1,212,218	\$ 1,334,397
Total Universal Corporation shareholders' equity	1,307,299	1,246,665	1,337,087



**Net Income Per Diluted Share\***

in dollars

**Dividends Declared**

in dollars

**Operating Income**

in millions of dollars

\* Attributable to Universal Corporation common shareholders after deducting amounts attributable to noncontrolling interests in consolidated subsidiaries.

\*\* Includes a one-time reduction of earnings available to common shareholders of \$74 million, or \$2.99 per diluted share, from the conversion for cash of the remaining shares of the Company's Series B 6.75% Convertible Perpetual Preferred Stock.



# BOARD OF DIRECTORS

Universal Corporation

## George C. Freeman, III<sup>1\*2</sup>

Chairman, President and  
Chief Executive Officer  
Universal Corporation

## Lennart R. Freeman<sup>134</sup>

Retired Executive  
Vice President  
Swedish Match AB

## Michael T. Lawton<sup>13\*4</sup>

Retired Executive  
Vice President and  
Chief Financial Officer  
Domino's Pizza, Inc.

## Thomas H. Tullidge, Jr.<sup>235</sup>

Chief Strategy Officer,  
Legal and Finance  
Cary Street Partners  
Financial LLC

## Diana F. Cantor<sup>245\*</sup>

Partner  
Alternative Investment  
Management, LLC

## Thomas H. Johnson<sup>14\*5▼</sup>

Chief Executive Officer  
The Taffrail Group, LLC

## Robert C. Sledd<sup>2\*35</sup>

Managing Partner  
Pinnacle Ventures, LLC

## Jacqueline T. Williams<sup>235</sup>

Principal  
JTW Consulting

- 1 Executive Committee
- 2 Finance and Pension Investment Committee
- 3 Audit Committee
- 4 Compensation Committee
- 5 Nominating and Corporate Governance Committee
- \* Committee Chairman
- ▼ Lead Independent Director

# DIRECTORS

Universal Leaf Tobacco Company, Inc. <sup>▲</sup> / Universal Global Ventures, Inc. <sup>+</sup>

## George C. Freeman, III <sup>▲+</sup>

Chairman, President and  
Chief Executive Officer

## Catherine H. Claiborne <sup>▲+</sup>

Senior Vice President,  
Administration and Secretary

## Friedrich G. Bossert <sup>▲</sup>

Managing Director,  
Dark Air-Cured Region

## J. Patrick O'Keefe <sup>+</sup>

Senior Vice President,  
Universal Global Ventures, Inc.

## Airton L. Hentschke <sup>▲+</sup>

Executive Vice President and  
Chief Operating Officer

## Candace C. Formacek <sup>▲+</sup>

Senior Vice President and  
Treasurer

## Cesar A. Bünecker <sup>▲</sup>

Managing Director,  
South America Region

## Gary S. Taylor <sup>▲</sup>

Managing Director,  
Africa Region

## Johan C. Kroner <sup>▲+</sup>

Executive Vice President and  
Chief Financial Officer

## Preston D. Wigner <sup>▲+</sup>

Senior Vice President,  
General Counsel and  
Assistant Secretary

## Domenico Cardinali <sup>▲</sup>

Managing Director,  
Europe Region

## Jonathan R. Wertheimer <sup>▲</sup>

President,  
Socotab, L.L.C.

## Theodore G. Broome <sup>▲</sup>

Executive Vice President and  
Sales Director

## Paul G. Beevor <sup>▲</sup>

Managing Director,  
Asia Region

## Clayton G. Frazier <sup>▲</sup>

Managing Director,  
North America Region



## OFFICERS

*Universal Corporation*

**George C. Freeman, III**  
Chairman, President and  
Chief Executive Officer

**Catherine H. Claiborne**  
Vice President and  
Assistant Secretary

**Joseph W. Hearington, Jr.**  
Vice President,  
Internal Auditing

**Preston D. Wigner**  
Vice President, General  
Counsel and Secretary

**Airton L. Hentschke**  
Senior Vice President and  
Chief Operating Officer

**Steven S. Diel**  
Vice President,  
Business Development

**H. Michael Ligon**  
Vice President,  
Corporate Affairs

**Beth Ann Luther**  
Corporate Director,  
Taxes

**Johan C. Kroner**  
Senior Vice President and  
Chief Financial Officer

**Candace C. Formacek**  
Vice President and  
Treasurer

**Harvard B. Smith**  
Vice President and  
Chief Compliance Officer

**Jennifer S. Rowe**  
Assistant Vice President,  
Capital Markets

**Scott J. Bleicher**  
Vice President and  
Controller

## CHAIRMEN EMERITUS

Henry H. Harrell  
Allen B. King



## TO OUR SHAREHOLDERS



**George C. Freeman, III**  
*Chairman, President and  
Chief Executive Officer*

We started fiscal year 2021 at the height of the COVID-19 restrictions, which have had some impact on every aspect of Universal's operations. I would like to thank all of our devoted employees for their patience and prudence during the pandemic. As society begins to reopen and recover, I also want to share my optimism about how we've navigated the pandemic and positioned Universal for the future.

I'm pleased to report that our fiscal year 2021 net income, diluted earnings per share and non-GAAP adjusted operating income were all up over 20% compared to fiscal year 2020. Here are the highlights:

- Net income of \$87.4 million, or \$3.53 per diluted share, compared with fiscal year 2020's net income of \$71.7 million, or \$2.86 per diluted share. Excluding restructuring and impairment costs and certain other non-recurring items, net income and diluted earnings per share for fiscal year 2021 increased by \$17.6 million and \$0.76, respectively, compared to fiscal year 2020.
- Operating income of \$147.8 million, compared to operating income of \$126.4 million for fiscal year 2020.
- Segment operating income of \$169.2 million, an increase of \$31.1 million, compared to segment operating income of \$138.1 million for fiscal year 2020.
- Consolidated revenues of \$2.0 billion, an increase of \$73.4 million, for fiscal year 2021, primarily due to the addition of the plant-based ingredients businesses we acquired in calendar year 2020 and offset in part by lower comparative leaf tobacco shipment volumes.

In addition to delivering strong year over year results, we continue to look to strategically diversify our business mix going forward, including pursuing growth opportunities for our plant-based ingredients platform. We made significant progress by enhancing our plant-based ingredients platform when we acquired Silva International in October 2020. Silva is a natural, specialty dehydrated vegetable, fruit and herb processing company. Through this acquisition, we welcomed more than 200 new employees to Universal, all of whom share our commitment to upholding the critical relationships we've built with farmers and suppliers around the world.

During the pandemic, we saw the resilience that our plant-based ingredients platform has to offer – its diversification, in particular, has served us well. While demand for ingredients used in products for restaurants and social venues declined, we saw demand increase for ingredients used in grocery items and pet foods. With Silva as part of our platform, we're building on our previous acquisition of FruitSmart to offer customers a single source for vegetable and fruit ingredients solutions.

While we're eager to continue to grow our ingredients platform, I can assure you that we remain committed to our tobacco business and are energized by its future. As a company that operates in numerous countries around the world, we are continuing to invest in the tobacco business, particularly in providing more value-added services to our customers, and maintaining a sustainable tobacco supply chain. We pride ourselves on best practices in our industry, adopting and implementing policies and procedures that protect not only the farmers from whom we purchase tobacco, but also the facilities and even the broader communities in which we operate.

We have a responsibility to our stakeholders to set high standards of social and environmental performance and to support a sustainable supply chain. This year highlighted the importance of supporting the communities in which Universal operates, given the toll the pandemic has taken globally. We continue to build our ESG programs to emphasize our strong supply chain and the processes and activities that elevate our social and environmental performance. We published our second annual



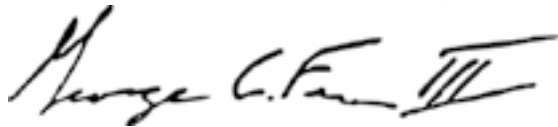


sustainability report in December 2020 on our website. Our sustainability report provides valuable information about our commitment to sustainability, including how we enhanced the transparency of our environmental performance by adding more details and metrics about our greenhouse gas emissions and water utilization. These metrics, associated with the Sustainability Accounting Standards Board (SASB) Agricultural Products standard, provide further breakdowns of emissions data and disclose water use in areas where water risk may be more sensitive. I encourage you to visit our website and read about our sustainability efforts that span leaf tobacco and other food materials in our second annual sustainability report.

Finally, amidst a challenging year, we didn't waver in our commitment to returning value to our shareholders. In connection with fiscal year 2021 earnings, we were pleased to announce our 51st annual dividend increase in our company's 100-plus year history.

I have a deep sense of appreciation for the employees, farmers, customers and partners who helped Universal navigate these last 12 months. Despite work restrictions and supply chain challenges, we met our customers' needs, continued to invest in our businesses while returning cash to shareholders, and maintained our commitment to sustainability. I am confident we are a stronger company as a result.

On behalf of our Board of Directors and the employees of Universal, thank you for your continued support.



**George C. Freeman, III**  
Chairman, President and Chief Executive Officer







# Universal



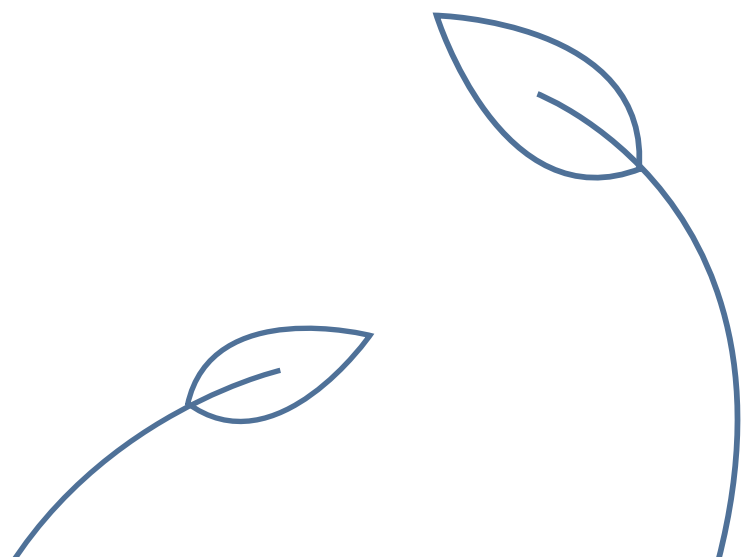
# SUSTAINABILITY

Universal Corporation



We believe we have a fundamental responsibility to our stakeholders to set high standards of social and environmental performance to support a sustainable supply chain and operations. In 2018, Universal celebrated 100 years in business. Our 100 year anniversary was an opportunity to look back at our accomplishments, and to look forward to our future. We believe sustainability is a key component of our past and future success, and we highlighted our 100 year anniversary by publishing a Sustainability Review to promote our commitment to sustainability. We produced our first annual Sustainability Report the following year, and we have committed to annual sustainability reporting. Our Board of Directors further evidenced our commitment to sustainability by amending our Nominating and Corporate Governance Committee charter to give the Committee oversight of our Environmental, Social and Governance programs.

Our commitment to sustainability encompasses a wide array of programs and initiatives. As a global agri-products supplier operating in numerous countries around the world, we primarily focus our sustainability efforts on our own operations and the farmers from whom we purchase leaf tobacco and other food materials. Sustainability efforts with respect to our facilities around the world involve the adoption and implementation of policies and procedures related to environmental impacts, workforce protections and programs, and other important considerations. Sustainability efforts with respect to our supply chain also address environmental impacts, while also emphasizing important issues such as appropriate agricultural labor practices and other components of industry-recognized good agricultural practices (“GAP”).





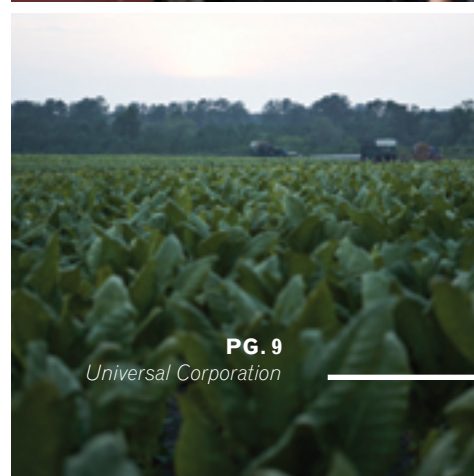
## AGRICULTURAL LABOR PRACTICES

Throughout the world, we work side-by-side with our contracted farmers to produce a sustainable tobacco crop that adheres to GAP, including appropriate agricultural labor practices. Our global Agricultural Labor Practices (“ALP”) program code, or ALP Code, consists of seven principles that set forth human rights requirements for our contracted farmers to meet. The ALP Code requires the progressive elimination of child labor; adherence to income and work hour requirements; fair treatment of workers so they are free from abuse; prohibition of forced labor; safe working environments; recognition and respect of workers’ rights to freedom of association and collective bargaining; and compliance with local employment laws. As part of our ALP program, we train contracted farmers on the ALP Code requirements and we monitor their compliance through multiple in-person farm visits during the growing season. The significant investment of time and resources we commit each year to our ALP program evidences the importance of sustainable labor practices to our business.



## ENVIRONMENTAL IMPACTS

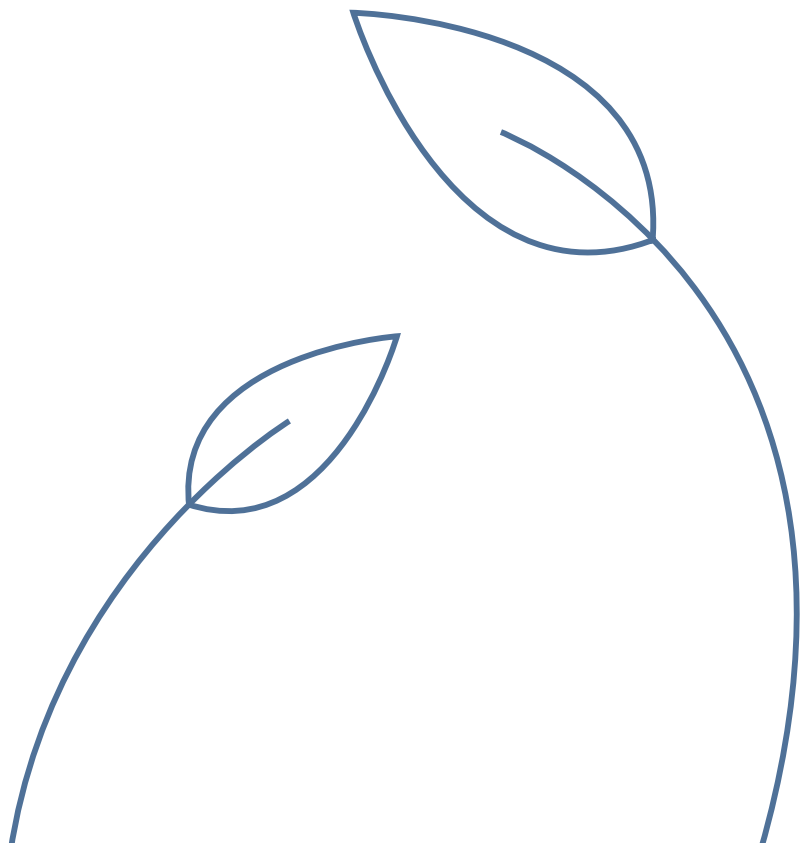
Universal is committed to abiding by environmental laws and regulations, monitoring our supply chain activities, and cooperating with supply chain partners to implement strategies that mitigate and reduce environmental impacts that may be associated with our business. We recognize three primary environmental risks related to our global footprint: water usage; emissions; and waste. In fiscal year 2020, several environmental projects and programs were expanded and implemented to further minimize our environmental footprint, including GAP program initiatives to address environmental risks on contracted farms. In addition, we publicly committed to set a science-based greenhouse gas emissions reduction target for our Company through the Science Based Targets Initiative.







Silva procures over 60 types of dehydrated vegetables, fruits, and herbs from over 20 countries around the world. In addition to sourcing, the company specializes in processing natural materials into custom designed dehydrated vegetable and fruit-based ingredients for a variety of end products. Its top five ingredient product categories are vegetable blends, peppers, spinach, carrots, and pumpkin. Headquartered in Momence, Illinois, Silva employs over 200 people and has a 380,000 square foot manufacturing facility. Silva has established a reputation as the 'go-to' provider for 'clean,' natural, specialty dehydrated vegetable, and fruit-based ingredients due to its unique competencies and significant capacity to source, process, and manufacture materials. Silva also has longstanding relationships with farmers and suppliers around the world and maintains strong quality control procedures, ensuring consistent, high-quality supply. Silva's manufacturing facility was recently expanded and enhanced. As a result, the business is well positioned to take advantage of increasing demand for natural and clean-label products across the end markets it serves, including within the attractive and growing savory and pet food end markets.

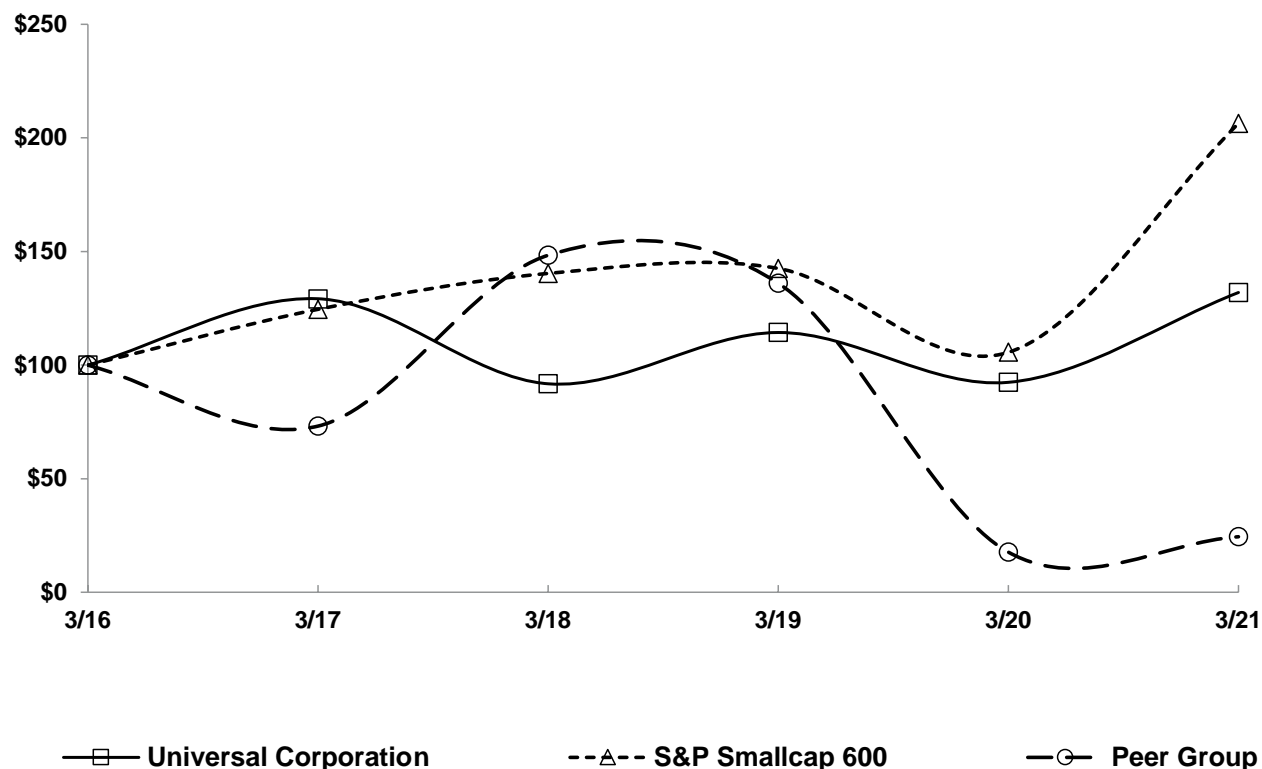






# PERFORMANCE GRAPH

Comparison of 5 Year Cumulative Total Return\*



\*\$100 invested on 3/31/16 in stock or index, including reinvestment of dividends. Fiscal year ending March 31.

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The performance graph compares the cumulative total shareholder return on Universal Corporation common stock for the last five fiscal years with the cumulative total return for the same period of the Standard & Poor's Smallcap 600 Stock Index and the peer group index. The peer group represents Pyxus International, Inc. (formerly Alliance One International, Inc.). The graph assumes that \$100 was invested in Universal Corporation common stock at the end of the Company's 2016 fiscal year, and in each of the comparative indices, in each case with dividends reinvested.

## CUMULATIVE TOTAL RETURN UNIVERSAL CORPORATION COMMON STOCK

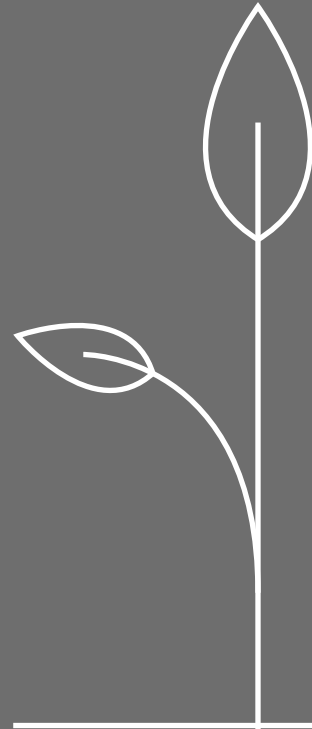
	At March 31					
	2016	2017	2018	2019	2020	2021
<b>Universal Corporation</b>	\$ 100.00	\$ 129.17	\$ 91.82	\$ 114.34	\$ 92.47	\$ 131.91
<b>S&amp;P Smallcap 600</b>	100.00	124.59	140.38	142.58	105.67	206.40
<b>Peer Group</b>	100.00	73.18	148.35	136.05	17.71	24.49





Universal

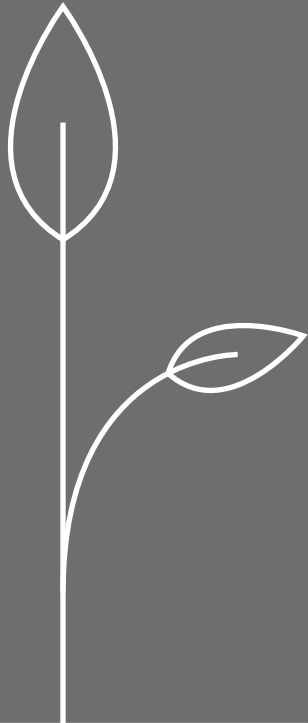
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2021





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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED MARCH 31, 2021**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 001-00652**

**UNIVERSAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or Other Jurisdiction of  
Incorporation or Organization)

**54-0414210**

(I.R.S. Employer  
Identification Number)

**9201 Forest Hill Avenue, Richmond, Virginia 23235**

(Address of Principal Executive Offices)

(Zip Code)

**804-359-9311**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Exchange Act:**

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	UVV	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based upon the closing sales price on the New York Stock Exchange of the registrant's common stock on September 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.3 billion.

As of May 25, 2021, the total number of shares of common stock outstanding was 24,514,867.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates certain information by reference from the registrant's 2021 Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed no later than 120 days after the close of the registrant's fiscal year ended March 31, 2021.





**Universal**

**UNIVERSAL CORPORATION**  
**FORM 10-K**  
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**Universal**



## **Forward-Looking Statements**

This Annual Report on Form 10-K, which we refer to herein as our Annual Report, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Among other things, these statements relate to Universal Corporation’s financial condition, results of operations and future business plans, operations, opportunities, and prospects. In addition, Universal Corporation and its representatives may make written or oral forward-looking statements from time to time, including statements contained in other filings with the Securities and Exchange Commission (the “SEC”) and in reports to shareholders. These forward-looking statements are generally identified by the use of words such as we “expect,” “believe,” “anticipate,” “could,” “should,” “may,” “plan,” “will,” “predict,” “estimate,” and similar expressions or words of similar import. These forward-looking statements are based upon management’s current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance, or achievements to be materially different from any anticipated results, prospects, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to: impacts of the ongoing COVID-19 pandemic; anticipated levels of demand for and supply of our products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; government regulation and other stakeholder expectations; product taxation; industry consolidation and evolution; changes in exchange rates and interest rates; impacts of regulation and litigation on our customers; success in pursuing strategic investments or acquisitions and integration of new businesses and the impact of these new businesses on future results; and general economic, political, market, and weather conditions. For a description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, “Risk Factors.” We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made, and we undertake no obligation to update any forward-looking statements made in this report. In addition, the discussion of the impact of current trends on our business in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions” in Item 7 should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report.

## **General**

This Annual Report uses the terms “Universal,” “the Company,” “we,” “us,” and “our” to refer to Universal Corporation and its subsidiaries when it is not necessary to distinguish among Universal Corporation and its various operating subsidiaries or when any distinction is clear from the context in which it is used.

See the “Results of Operations” section in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 for a discussion of adjusted operating income (loss), adjusted net income (loss) attributable to Universal Corporation, adjusted diluted earnings (loss) per share, and segment operating income (loss), non-GAAP financial measures that we refer to in this Annual Report on Form 10-K and consider useful in understanding our business results and trends.

## PART I

### Item 1. Business

#### A. The Company

##### *Overview*

We are a global business-to-business agri-products supplier to consumer product manufacturers, operating in over 30 countries on five continents that sources and processes leaf tobacco and plant-based ingredients. Tobacco has been our principal focus since our founding in 1918, and we are the leading global leaf tobacco supplier. Through our plant-based ingredients platform, we provide a variety of value-added manufacturing processes to produce high-quality, specialty vegetable and fruit-based ingredients for the food and beverage end markets. The largest portion of our business involves procuring and processing flue-cured and burley leaf tobacco for manufacturers of consumer tobacco products. We do not manufacture any direct to consumer products. Rather, we support consumer product manufacturers by selling them processed raw products and performing related services for them.

Recognizing that leaf tobacco is a mature industry, we have been positioning our company for the future by investing in strengthening our plant-based agri-product services platform, while maintaining our position as the leading global leaf tobacco supplier. In fiscal year 2021, we made considerable progress towards building and enhancing our plant-based ingredients platform. On October 1, 2020, we acquired Silva International, Inc. (“Silva”), a natural, specialty dehydrated vegetable, fruit, and herb processing company. We have been integrating and exploring opportunities for synergies between our recently acquired businesses, FruitSmart, Inc. (“FruitSmart”), acquired on January 1, 2020, and Silva.

We generated approximately \$2.0 billion in consolidated revenues and earned \$147.8 million in total operating income and \$169.2 million in total segment operating income in fiscal year 2021. Universal Corporation is a holding company that operates through numerous directly and indirectly owned subsidiaries. Universal Corporation’s primary subsidiaries are Universal Leaf Tobacco Company, Incorporated and Universal Global Ventures, Incorporated. See Exhibit 21, “Subsidiaries of the Registrant,” for additional subsidiary information.

##### *Additional Information*

Our website address is [www.universalcop.com](http://www.universalcop.com). We post regulatory filings on this website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These filings include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 reports on Forms 3, 4, and 5, and any amendments to those reports filed with or furnished to the SEC. Access to these filings on our website is available free of charge. Copies are also available, without charge, from Universal Corporation Investor Relations, 9201 Forest Hill Avenue, Richmond, VA 23235. Reports filed with the SEC may be viewed at [www.sec.gov](http://www.sec.gov). We also post our press releases on our website. Information on our website is not deemed to be incorporated by reference into this Annual Report.

In addition, our Corporate Governance Guidelines, Code of Conduct, and charters for the Audit Committee, the Compensation Committee, the Executive Committee, the Finance and Pension Investment Committee, and the Nominating and Corporate Governance Committee are available free of charge to shareholders and the public through the “Corporate Governance” section of our website. Printed copies of the foregoing are available to any shareholder upon written request to our Treasurer at the address set forth on the cover of this Annual Report or may be requested through our website, [www.universalcop.com](http://www.universalcop.com).

## B. Description of Business

Given the significant and strategic investments in our plant-based ingredients platform in fiscal years 2020 and 2021, we evaluated our operating segments for financial reporting purposes during the quarter ended December 31, 2020. Based on our evaluation, we determined that we conduct our operations across two primary reportable operating segments, Tobacco Operations and Ingredients Operations. The revised segments reflect how we manage our Company, allocate resources, and assess business performance. Prior period segment information has been recast retrospectively to reflect these changes.

### Tobacco Operations

Our primary business is selecting, procuring, financing, processing, packing, storing, and shipping leaf tobacco for sale to manufacturers of consumer tobacco products throughout the world. Procuring leaf tobacco involves contracting with, providing agronomy support to, and financing farmers in many origins. We do not manufacture cigarettes or other consumer tobacco products. Rather, we support consumer product manufacturers by selling them processed leaf tobacco and performing related services for them. Through various operating subsidiaries and unconsolidated affiliates located in tobacco-growing origins around the world, we contract, purchase, process, and sell flue-cured and burley tobaccos, as well as dark air-cured and oriental tobaccos. Flue-cured, burley, and oriental tobaccos are used principally in the manufacture of cigarettes as well as in shisha, and dark air-cured tobaccos are used mainly in the manufacture of cigars, natural wrapped cigars and cigarillos, smokeless, and pipe tobacco products. Some of these tobacco types are also increasingly used in the manufacture of non-combustible tobacco products that are intended to provide consumers with an alternative to traditional combustible tobacco products. We also provide value-added services to our customers, including blending, chemical and physical testing of tobacco, service cutting for select manufacturers, manufacturing reconstituted leaf tobacco, and managing just-in-time inventory.

Several important operating factors characterize our Company and our primary business, leaf tobacco:

- Experience dealing with large numbers of farmers,
- Expertise in delivering a sustainable supply of compliant, traceable, competitively-priced leaf tobacco,
- Capability to meet unique customer requirements for style, volume and quality,
- Longstanding customer, farmer and community relationships,
- Presence in all major leaf tobacco sourcing areas, and
- Financial strength and flexibility.

In addition to our leaf tobacco business, we are involved in other smaller-scale tobacco opportunities. Our wholly-owned subsidiary, AmeriNic, Inc., produces liquid nicotine for next generation tobacco products. AmeriNic's products are manufactured under stringent United States Pharmacopeia ("USP") standards. Global Laboratory Services, Inc., another wholly-owned subsidiary, provides testing for crop protection agents and tobacco constituents in seed, leaf, and finished products, including e-cigarette liquids and vapors. Analytical services include chemical compound testing in finished tobacco products and mainstream smoke. We also have a business that recycles waste materials from tobacco production.

We believe that by following several key operating principles in our tobacco operations we can continue to produce good financial returns and enhance shareholder value. These key operating principles are:

- **Strategic market position.** We work closely with both our customers and our suppliers to ensure that we deliver a product that meets our customers' needs while cultivating a strong, sustainable supplier base. We balance product purchases against indicated customer demand and maintain global procurement and production operations to maximize supply chain efficiencies.
- **Strong local management.** Having strong local management in all of our key supply origins allows us to identify and react to constantly shifting market conditions. Empowered and experienced local management, coupled with global coordination, affords us the flexibility and knowledge necessary to adapt quickly in order to continually deliver high quality, competitively-priced products and services.
- **Compliant products.** Customers expect a sustainable supply of compliant, traceable, competitively-priced product, and we believe that we lead in delivering these products. Among other initiatives, we invest in training farmers in good agricultural practices ("GAP") that encompass crop quality, sustainability, environmental stewardship and agricultural labor standards.

- **Diversified sources.** Our business is reliant on a strong and resilient supply chain, which enables us to deliver a stable supply of quality products to our customers. We operate in over 30 countries on five continents and maintain a presence in all major flue-cured, burley, oriental, and dark air-cured tobacco origin markets. This global presence allows us to meet our customers' diverse product requirements while minimizing the effects of adverse crop conditions and other localized supply disruptions.
- **Financial strength.** Financial strength is critical and enables us to fund our global operations efficiently and to facilitate investment when suitable opportunities arise. Management of liquidity, interest expense, and capital costs provides us with a competitive advantage, affords us flexibility when responding to customer requirements and market changes, and allows us to enhance shareholder value.

With respect to our leaf tobacco business, we generate our revenues from product sales of processed, packed tobacco that we source, from processing fees for tobacco owned by third parties, and from fees for other services. Sales to our largest customers, with whom we have longstanding relationships, have accounted for more than two-thirds of our consolidated revenues for each of the past three fiscal years. Our sales consist primarily of flue-cured and burley tobaccos. For the fiscal year ended March 31, 2021, our Tobacco Operations segment accounted for 93% of our revenues and almost all of our segment operating income.

We conduct our leaf tobacco business in varying degrees in a number of countries, including Bangladesh, Brazil, Canada, the Dominican Republic, Ecuador, France, Germany, Guatemala, Hungary, India, Indonesia, Italy, Malawi, Mexico, Mozambique, the Netherlands, Paraguay, the People's Republic of China, the Philippines, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Tanzania, the United Arab Emirates, the United States, and Zimbabwe. In addition, our oriental tobacco joint venture, Socotab, L.L.C. has operations in Bulgaria, Greece, the Republic of North Macedonia, and Turkey.

Because unprocessed, or "green," leaf tobacco is a perishable product, timely processing is an essential service to our customers. Our processing of leaf tobacco includes grading in the factories, blending, removal of non-tobacco material, separation of leaf from the stems, drying, packing to precise moisture targets for proper aging, as well as temporary storage. This generally requires investments in factories and machinery in areas where the tobacco is grown. Processed tobacco that has been properly packed can be stored by customers for a number of years prior to use, but most processed tobacco is used within two to three years.

We are a major purchaser and processor in the primary exporting regions for flue-cured and burley tobacco throughout the world. Africa, Brazil, and the United States produce approximately two-thirds of the flue-cured and burley tobacco grown outside of China. We estimate that over the last five years we have handled, through leaf sales or processing, on average between 25% and 35% of the annual production of such tobaccos in Africa, between 35% and 45% in the United States, and between 15% and 25% in Brazil. These percentages can change from year to year based on the size, price, and quality of the crops. We participate in the procurement, processing, storage, and sale of oriental tobacco through ownership of a 49% equity interest in Socotab, L.L.C., a leading supplier of oriental tobaccos. In addition, we maintain a presence, and in certain cases, a leading presence, in all other major tobacco growing regions in the world. We believe that our leading position in the leaf tobacco industry is based on our volumes handled, our operating presence in all of the major sourcing areas, our ability to meet customer style, volume, and quality requirements, our expertise in dealing with large numbers of farmers, our long-standing relationships with customers, our development of processing equipment and technologies, and our financial position which enables us to make strategic investments in our business. The efficiencies that we offer our customers, due to our established network of operational expertise and infrastructure on the ground and our ability to market most styles and grades of leaf to a diverse customer base, are also key to our success.

We also have a leading position in worldwide dark tobacco markets. Our dark tobacco operations are located in most of the major producing countries and in other smaller markets. We operate in major dark tobacco producing countries, including the United States, the Dominican Republic, Ecuador, Indonesia, Paraguay, the Philippines, and Brazil. Dark tobaccos are typically used in the manufacture of cigars, pipe tobacco, and smokeless tobacco products, and as components of certain "roll-your-own" cigarette products.

Sales are made by our sales force and, to a much smaller degree, through the use of commissioned agents. Most customers are long-established tobacco product manufacturers. Customer contract arrangements vary around the world and include negotiated pricing as well as cost plus arrangements. Discussions of a customer's longer-term needs may begin as early as one to two years in advance of a particular crop purchase. These discussions are key to our future crop production planning. Prior to planting each year, we use early customer indications for type, style, processing, and volume requirements for the

upcoming season's crop to help us determine our farmer contracting and grower input needs in our origins. We work with our farmers and customers continually throughout the crop season. As crops progress through the growing season, customers will inspect the crop, and a customer's early indications may be refined based upon emerging crop qualities and quantities and market pricing expectations. Ultimately, purchase agreements specifying quantity, quality, grade and price are executed, leading to inventory allocations of harvested green or processed leaf that we have acquired.

In the majority of the countries where we operate, we contract directly with tobacco farmers or tobacco farmer cooperatives. In most countries outside the United States and the European Union, we advance seed or seedlings, fertilizer, and other agricultural inputs to farmers. These advances are repaid by farmers with the tobacco they produce. We are dedicated to promoting a sustainable farmer base and provide our farmers with agronomy support. Our GAP programs educate farmers in such matters as the reduction of non-tobacco related materials, product traceability, environmental sustainability, agricultural labor standards, and social responsibility.

Our foreign operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, exchange controls, and currency fluctuations. During the tobacco season in many of the countries listed above, we advance funds, guarantee local loans, or do both, each in substantial amounts, for the eventual purchase of tobacco. The majority of these seasonal advances and loan guarantees mature in one year or less upon the farmers' delivery of contracted tobaccos. Most advances to farmers are denominated in local currency, which is a source of foreign currency exchange rate risk. Most tobacco sales are denominated in U.S. dollars, which reduces our foreign currency exchange risk after the tobacco has been purchased. See Item 1A, "Risk Factors" for more information about our foreign currency exchange and other risks.

#### *Seasonality*

Our tobacco operations are seasonal in nature. Tobacco in Brazil is usually purchased from January through July, while buying in Malawi, Mozambique, Zimbabwe, and other African countries typically begins around April and continues through November. Farmers begin to sell U.S. flue-cured tobacco in late July, and the marketing season lasts for approximately four months.

We normally operate each of our tobacco processing plants for seven to nine months of the year. During this period for each region, inventories of green tobacco, inventories of processed tobacco, and trade accounts receivable normally reach peak levels in succession. We normally finance this expansion of current assets with cash, short-term borrowings from banks, and customer advances, and these funding sources normally reach their peak usage in each region during its respective purchasing or processing period. Our balance sheet at our fiscal year end reflects seasonal expansions in working capital in South America and Central America. Our financial performance is also impacted by the seasonality of our business. Due to global tobacco growing cycles, as well as customer shipment preferences, we typically ship a larger portion of our volumes in the second half of our fiscal year. Changes in customer shipment schedules or changes in crop timing in a season can shift recognition of revenue in a given fiscal year or between fiscal years.

#### *Customers*

A material part of our tobacco business is dependent upon a few customers. Our largest customers are Altria Group Inc., British American Tobacco plc, China Tobacco International, Inc., Imperial Brands plc, Japan Tobacco, Inc., Philip Morris International, Inc., and Swedish Match AB. In the aggregate, these customers have accounted for more than two-thirds of our consolidated revenues for each of the past three fiscal years. For the fiscal year ended March 31, 2021, each of British American Tobacco plc, Imperial Brands plc, and Philip Morris International, Inc., including their respective affiliates, accounted for 10% or more of our revenues. The loss of, or substantial reduction in business from, any of these customers could have a material adverse effect on our results. We have longstanding relationships with all of these customers.

We had commitments from customers for approximately \$501 million of the tobacco in our inventories at March 31, 2021. Based upon historical experience, we expect that about 90% of such orders will be delivered during fiscal year 2022. Most of our products require shipment via trucks and oceangoing vessels to reach customer destinations. Delays in the delivery of orders can result from such factors as truck and container availability, port access and capacity, vessel scheduling, and changing customer requirements for shipment.

As more fully described in Note 1 and Note 4 to the consolidated financial statements in Item 8 of this Annual Report, we recognize revenue from the sale of tobacco when we complete our contractual performance obligation for the transfer of the tobacco, which is generally when title and risk of loss is transferred to our customer. Individual shipments may be large, and since the customer typically specifies shipping dates, our financial results may vary significantly between reporting periods due to



timing of sales. In some markets, including Brazil, Italy, the Philippines, Poland, and the United States, we process tobacco that is owned by our customers, and we recognize the revenue for that service when the processing is completed.

### *Competition*

Competition among leaf tobacco suppliers is based on the ability to meet customer specifications in the growing, buying, processing, and financing of tobacco, and on the prices charged for products and services. Competition varies depending on the market or country involved. The number of competitors varies from country to country, but there is competition in most areas to buy and sell the available tobacco. Our principal competitor is Pyxus International, Inc. (“Pyxus”) (formerly Alliance One International, Inc.). Pyxus operates in many of the countries where we operate. However, we are the only global leaf tobacco supplier in Hungary, Italy, Mexico, Mozambique, the Philippines, and Poland. We also have reconstituted tobacco sheet facilities and operations that handle dark air-cured tobacco. We consider ourselves and Pyxus to be the only global leaf suppliers based on our worldwide scope of operations. Most of our major customers are partially vertically integrated, and thus also compete with us for the purchase of leaf tobacco in several of the major markets.

In most major leaf tobacco markets, smaller competitors are very active. These competitors typically have lower overhead requirements and provide less support to customers and farmers. Due to their lower cost structures, they can often offer a price on products that is lower than our price. However, we believe that we provide quality controls and farm programs that add value for our customers in an increasingly regulated world and make our products highly desirable. Our GAP support an approach to farming that is focused on sustainability, employing sound field production and labor management practices that meet our customers’ needs, promote farmer profitability, and reflect environmental sensitivity. We provide comprehensive training, technical support in the field, and crop analytics through ongoing research and development. We believe that our major customers increasingly require these services and that our programs increase the quality and value of the products and services we offer. We also believe that our customers value the security of supply that we are able to provide due to our strong relationships with our farmer base and our global footprint.

### **Ingredients Operations**

Our ingredients businesses provide our business-to-business customers with a broad variety of plant-based ingredients for both human and pet consumption. A variety of value-added manufacturing processes are used in these businesses to convert raw materials into a wide spectrum of fruit and vegetable juices, concentrates, and dehydrated products. Our plant-based ingredients platform serves the Food and Beverage market, one of the largest industrial categories in the United States. There are thousands of companies represented in this segment and hundreds that offer similar or competitive types of products. We distinguish ourselves in this market by offering high-quality, customized product solutions with global sourcing capabilities and by having strong, long-standing customer relationships. Customers of our ingredients businesses include large multinational food and beverage companies, as well as smaller independent entities. No customer accounted for more than 10% of our Ingredients Operations segment revenues in fiscal year 2021. FruitSmart, Silva, and Carolina Innovative Food Ingredients, Inc. (“CIFI”) are the primary operations for the Ingredients Operations segment. In December 2020, we announced the wind-down of CIFI, a greenfield operation that primarily manufactured both dehydrated and liquid sweet potato products having determined that CIFI is not a strategic fit for the long-term objectives of our plant-based ingredients platform. CIFI’s single-product focused processing facility and ongoing international pricing pressures, among other factors, created challenges that proved insurmountable. Sales of existing inventory and certain administrative activities at CIFI will continue into fiscal year 2022.

FruitSmart supplies a broad set of juices, concentrates, pomaces, purees, fruit fibers, seed and seed powders, and other value-added products to food, beverage and flavor companies throughout the United States and internationally. FruitSmart processes apples, grapes, blueberries, raspberries, cherries, blackberries, pears, cranberries and strawberries as well as other fruits and vegetables. Its top five products are apple juice concentrate, not from concentrate apple juice, concord grape, raspberry, and blueberry juice concentrates. The business is headquartered in the Yakima Valley of the state of Washington, where it has approximately 200 employees and two manufacturing facilities: one produces liquid products and one produces dry products. FruitSmart is well-positioned to capitalize on recent shifts in market dynamics and consumer behavior including a secular shift towards health and wellness, favoring natural clean-label ingredient producers and the rise of fruit as a natural clean-label sweetener alternative to processed sugar. FruitSmart also stands to benefit from growing consumer interest in better-for-you premium ingredients, including custom blends, not-from-concentrate and dry products, and strong growth in targeted end markets utilizing FruitSmart products, including ciders, purees and nutraceuticals.

Silva procures over 60 types of dehydrated vegetables, fruits and herbs from over 20 countries around the world. In addition to sourcing, the company specializes in processing natural materials into custom designed dehydrated vegetable and fruit-based ingredients for a variety of end products. Its top five ingredient product categories are vegetable blends, peppers, spinach, carrots, and pumpkin. Headquartered in Momence, Illinois, Silva employs over 200 people and has a 380,000 square foot

manufacturing facility. Silva has established a reputation as the ‘go-to’ provider for ‘clean,’ natural, specialty dehydrated vegetable and fruit-based ingredients due to its unique competencies and significant capacity to source, process and manufacture materials. Silva also has longstanding relationships with farmers and suppliers around the world and maintains strong quality control procedures, ensuring consistent, high-quality supply. Silva’s manufacturing facility was recently expanded and enhanced. As a result, the business is well positioned to take advantage of increasing demand for natural and clean-label products across the end markets it serves, including within the attractive and growing savory and pet food end markets.

## **Sustainability**

We believe we have a fundamental responsibility to our stakeholders to set high standards of social and environmental performance to support a sustainable supply chain and operations. In 2018, Universal celebrated 100 years in business. Our 100 year anniversary was an opportunity to look back at our accomplishments, and to look forward to our future. We believe sustainability is a key component of our past and future success, and we highlighted our 100 year anniversary by publishing a Sustainability Review to promote our commitment to sustainability. We produced our first annual Sustainability Report the following year, and we have committed to annual sustainability reporting. Our Board of Directors further evidenced our commitment to sustainability by amending our Nominating and Corporate Governance Committee charter to give the Committee oversight of our Environmental, Social and Governance programs.

Our commitment to sustainability encompasses a wide array of programs and initiatives. As a global agri-products supplier operating in numerous countries around the world, we primarily focus our sustainability efforts on our own operations and the farmers from whom we purchase leaf tobacco and other food materials. Sustainability efforts with respect to our facilities around the world involve the adoption and implementation of policies and procedures related to environmental impacts, workforce protections and programs such as those we address in “Human Capital Management” below, and other important considerations. Sustainability efforts with respect to our supply chain also address environmental impacts, while also emphasizing important issues such as appropriate agricultural labor practices and other components of industry-recognized GAP.

### *Agricultural Labor Practices*

Throughout the world, we work side-by-side with our contracted farmers to produce a sustainable tobacco crop that adheres to GAP, including appropriate agricultural labor practices. Our global Agricultural Labor Practices (“ALP”) program code, or ALP Code, consists of seven principles that set forth human rights requirements for our contracted farmers to meet. The ALP Code requires the progressive elimination of child labor; adherence to income and work hour requirements; fair treatment of workers so they are free from abuse; prohibition of forced labor; safe working environments; recognition and respect of workers’ rights to freedom of association and collective bargaining; and compliance with local employment laws. As part of our ALP program, we train contracted farmers on the ALP Code requirements and we monitor their compliance through multiple in-person farm visits during the growing season. The significant investment of time and resources we commit each year to our ALP program evidences the importance of sustainable labor practices to our business.

### *Environmental Impacts*

Universal is committed to abiding by environmental laws and regulations, monitoring our supply chain activities, and cooperating with supply chain partners to implement strategies that mitigate and reduce environmental impacts that may be associated with our business. We recognize three primary environmental risks related to our global footprint: water usage; emissions; and waste. In fiscal year 2020, several environmental projects and programs were expanded and implemented to further minimize our environmental footprint, including GAP program initiatives to address environmental risks on contracted farms. In addition, we publicly committed to set a science-based greenhouse gas emissions reduction target for our Company through the Science Based Targets Initiative.

For a discussion of recent developments and trends in our businesses, along with factors that may affect our businesses see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 1A, “Risk Factors.”

## **C. Human Capital Management**

### **Workforce Overview**

We believe our employees are among our most important resources and rely on them to execute our business plan with integrity and efficiency. Investing in human capital is critical to our continued success. Our employees enable us to be a leading global supplier of leaf tobacco and other agri-products. We strive to foster a diverse and inclusive workplace; attract, retain, and develop talented personnel; and keep our employees safe and healthy.

As of March 31, 2021, we employed more than 20,000 employees, located in over 30 different countries across five continents. Approximately 55% of our employees are seasonal and approximately 45% of our employees are full time. More than 45% of our employees are female and almost 17% of our managers are female. Globally, Universal has twelve collective bargaining agreements in place, covering approximately 65% of our workforce. The sizeable seasonal nature of our global workforce makes these numbers fluctuate throughout the year. The above percentages reflect our workforce on March 31, 2021.

We are a multinational and multicultural organization, with employees and operations located around the world, and we are committed to creating a diverse and inclusive workplace. Less than 5% of our employees are located in the United States. Almost all of our employees are from the same country in which our operations are located. Our expatriate hires represent less than 0.5% of our workforce, and they are hired due to their essential professional knowledge necessary to the operation of our business.

### **Universal Corporation's Board of Directors' Role in Human Capital Management**

Our Board of Directors believes that human capital management is an important component of our continued growth and success and is essential to our ability to attract, retain, and develop talented and skilled employees. We pride ourselves on a culture that respects co-workers and values concern for others.

Our Nominating and Corporate Governance Committee and our Compensation Committee both have important roles with respect to human capital management. The Nominating and Corporate Governance Committee oversees and reviews our Environmental, Social, and Governance ("ESG") programs, which include important policies and practices related to human rights, diversity and inclusion, prohibitions against discrimination, and other policies related to our workforce as well as our Board of Directors. The Compensation Committee has oversight of compensation, benefits, and retention and development processes, including an annual review of the Company's succession planning and leadership development program.

We are committed to protecting the human rights of our employees and have policies in place to support this effort, including relating to whistleblowing, harassment, equal employment and compliance with local labor laws. Our Board of Directors also adopted our Code of Conduct and Anti-Corruption Compliance Manual to promote ethical behavior throughout the Company and address violations of ethical standards. The Code and Manual have been translated into 17 languages and apply directly to all officers, directors and non-seasonal employees in the Universal family of companies. The Board of Directors also adopted our Human Rights Policy, which defines the high ethical and social standards we implement across our global operations. We support these rights and programs through compliance communications, face-to-face and online training, and through an anonymous compliance hotline that we maintain globally. Our compliance hotline is available to all our employees and any other interested parties 24 hours a day, 7 days a week, by internet or phone. The Board of Directors oversees our global compliance program and receives reports from our Chief Compliance Officer at each scheduled Board of Directors meeting.

### **Employee Benefits**

In addition to offering competitive base salaries and wages, the Compensation Committee believes employee benefits are an essential component of our total compensation package. Each of our global operations provides benefits that are designed to attract and retain our employees. These benefits vary depending on the location, seniority and employment status of our employees, and can include medical insurance, long-term disability insurance, retirement benefits, and similar programs. We periodically review and adjust our employees' total compensation and benefits when necessary to ensure that they are competitive within our industry and are aligned with our performance.

We also support our employees outside of work through a variety of initiatives and strongly believe that our success relies on the prosperity of the communities in which we operate. We fund various programs that enhance local economies and cultures. For example, in numerous locations we support projects designed to impact our employees and their families such as establishing health clinics and wellness programs to assist our employees, administering after school care for schoolchildren, or funding local cultural events. Ultimately, we recognize our impact extends beyond the workplace and are proud to engage as both active corporate citizens and leaders in our neighborhoods, communities, and countries.

## **Talent Development and Training**

Employee training and development of both technical and leadership skills are integral aspects of our human capital strategy. We provide employees with a range of development opportunities that vary by location and seniority of employees, such as online training, live classes, and mentoring to assist with career advancement. These programs often include safety and technical job skill training as well as soft-skill programs focused on communication and change management. Development of leadership skills remains a top priority and is specialized for all level of employees. For example, members of management in our global operations participate in our succession planning programs, which include the identification of employees who are offered development opportunities for career advancement.

## **Health and Safety**

The health and safety of our employees is at the forefront of our business efforts. We are committed to the prevention of injury and illness in the workplace through strong health and safety management, employee empowerment and accountability, and strict compliance with health and safety regulations. We pair our improved health and safety management system with a strong database reporting tool to allow all Universal facilities to track their local occupational health and safety performance and that of the entire company. These reports allow our global teams to analyze the insights collected from our health and safety system immediately.

Additionally, we utilize other health and safety initiatives to ensure our facilities remain safe for our employees. We established health and safety Key Performance Indicators (KPIs) across our tobacco factory and agronomy operations. Each factory carries out an in-depth data analysis of prior data and implements KPIs for improvement and monitoring. By giving employees a goal to achieve and monitor, they will be more engaged in what they do and better able to help us succeed. Our “fresh eyes” approach to workplace safety involves inviting colleagues from different facilities to share in cross-auditing tasks. In addition to corporate audits, we encourage this regional cross-auditing to promote a collaborative framework and drive our employee safety programs forward.

We continue to closely monitor developments related to the ongoing COVID-19 pandemic and have taken and continue to take steps intended to mitigate the potential risks to us. It is paramount that our employees who operate our businesses are safe and informed. We have assessed and regularly update our existing business continuity plans for our business in the context of this pandemic. For example, we have taken precautions with regard to employee and facility hygiene, imposed travel limitations on our employees, directed certain employee groups to work remotely whenever possible, and continue to assess protocols designed to protect our employees, customers, and the public.

### **D. Research and Development**

We did not expend material amounts for research and development during the fiscal years ended March 31, 2021, 2020, or 2019.

### **E. Intellectual Property**

We hold no material patents, licenses, franchises, or concessions.

### **F. Government Regulation, Environmental Matters, and Other Matters**

Our business is subject to general governmental regulation in the United States and in foreign jurisdictions where we conduct business. Such regulation includes, but is not limited to, matters relating to environmental protection. To date, governmental provisions regulating the discharge of material into the environment have not had a material effect upon our capital expenditures, earnings, or competitive position. See Item 1A, “Risk Factors” for a discussion of government regulations and other factors that may affect our business.

## Item 1A. Risk Factors

The risks and uncertainties described below are those that we currently believe could materially adversely affect us. Other risks and uncertainties that we do not presently consider to be material or of which we are not presently aware may become important factors that affect us in the future. If any of the risks discussed below actually occur, our business, financial condition, operating results or cash flows could be materially adversely affected. Accordingly, you should carefully consider the following risk factors, as well as other information contained in or incorporated by reference in this Annual Report.

*The ongoing coronavirus (COVID-19) pandemic could adversely affect our business, financial condition, results of operations and demand for our products and services.*

Since January 2020, the COVID-19 outbreak, characterized as a pandemic by the World Health Organization on March 11, 2020, has caused, and could possibly continue to cause a widespread health crisis and significantly disrupt the U.S. and global economies, markets and supply chains. The ultimate impact of the ongoing COVID-19 pandemic on our business, financial condition, results of operations and the demand for our products and services in the future is uncertain, and it is impossible to predict whether any impacts we have experienced to date would continue or worsen in the future. The extent to which the ongoing COVID-19 pandemic will impact our business, financial condition, results of operations, and demand for our products and services will depend on future developments including the ongoing geographic spread of COVID-19, the impact of COVID-19 mutations, the severity of the pandemic, the duration of the COVID-19 outbreak, and the type and duration of actions that may be taken by various governmental authorities in response to the COVID-19 pandemic and the impact on the U.S. and the global economies, markets, and supply chains. COVID-19, and other adverse public health developments in countries and states where we operate, therefore, could have a material and adverse effect on our business, financial condition, results of operations and the demand for our products and services. These effects could include a negative impact on the availability of our employees, temporary closures of our facilities or the facilities of our business partners, customers, suppliers, third party service providers or other vendors, and the interruption of domestic and global supply chains, distribution channels, liquidity and capital markets. In addition, we have taken and will continue to take precautionary measures, including through consultation with governmental authorities and union representatives, intended to help minimize the risk of the ongoing COVID-19 pandemic to our employees, including implementing work-from-home protocols, instituting mandatory stay-at-home policies for those who are ill or significantly exposed to COVID-19, acquiring personal protective equipment (PPE), increasing sanitation and special sanitation of work areas, mandating social distancing (particularly among our employees engaged in manual processes), altering work arrangements to maintain social distancing and limiting visitors and non-employees at our facilities. Our business continuity plans and other safeguards, however, may not be effective to mitigate the results of the ongoing COVID-19 pandemic.

**The impact of the ongoing COVID-19 pandemic and any worsening of the global business and economic environment as a result may also exacerbate the following risk factors discussed below in this Form 10-K, any of which could have a material effect on us. This situation remains fluid and additional impacts may arise that we are not aware of currently.**

### Operating Factors

*In areas where we purchase leaf tobacco directly from farmers, we bear the risk that the tobacco we receive will not meet quality and quantity requirements.*

When we contract directly with tobacco farmers or tobacco farmer cooperatives, which is the method we use to purchase tobacco in most countries, we bear the risk that the tobacco delivered may not meet customer quality and quantity requirements. If the tobacco does not meet such market requirements, we may not be able to fill all of our customers' orders, and such failure would have an adverse effect on profitability and results of operations. In a contract market our obligation is to purchase the entire tobacco plant, which encompasses many leaf styles, therefore, we also have a risk that not all of that production will be readily marketable at prices that support acceptable margins. In addition, in many foreign countries where we purchase tobacco directly from farmers, we provide them with financing. Unless we receive marketable tobacco that meets the quality and quantity specifications of our customers, we bear the risk that we will not be able to fully recover our crop advances or recover them in a reasonable period of time.

*The leaf tobacco industry is competitive, and we are heavily reliant on a few large customers.*

We are one of two major independent global competitors in the leaf tobacco industry, both of whom are reliant upon a few large customers. The loss of one of those large customers or a significant decrease in their demand for our products or services could significantly decrease our sales of products or services, which would have a material adverse effect on our results of operations. The competition among leaf tobacco suppliers and dealers is based on the ability to meet customer requirements in the buying, processing, and financing of tobacco, and on the price charged for products and services. We believe that we consistently meet our customers' requirements and charge competitive prices. Since we rely upon a few significant customers, the consolidation or failure of any of these large customers, or a significant increase in their vertical integration, could contribute to a significant decrease in our sales of products and services.



We compete for both the purchase and sale of leaf with smaller leaf tobacco suppliers in some of the markets where we conduct business. Some of these smaller leaf tobacco suppliers operate in more than one country. Since they typically provide little or no support to farmers, these leaf tobacco suppliers typically have lower overhead requirements than we do. Due to their lower cost structures, they often can offer prices on products and services that are lower than our prices. Our customers also directly source leaf tobacco from farmers to meet some of their raw material needs. Direct sourcing provides our customers with some qualities and quantities of leaf tobacco that they prefer not to use in their existing blends and that may be offered for sale. This competition for both the sale and purchase of leaf, both with smaller leaf tobacco suppliers and direct sourcing, could reduce the volume of the leaf we handle and could negatively impact our financial results.

*Our financial results can be significantly affected by changes in the balance of supply and demand for leaf tobacco.*

With respect to our leaf tobacco operations, our financial results can be significantly affected by changes in the overall balance of worldwide supply and demand for leaf tobacco. The demand for leaf tobacco, which is based upon customers' expectations of their future requirements, can change from time to time depending upon factors affecting the demand for their products. Our customers' expectations and their demand for leaf tobacco are influenced by a number of factors, including:

- trends in the global consumption of cigarettes,
- trends in consumption of cigars and other tobacco products,
- trends in consumption of alternative tobacco products, such as electronic nicotine delivery systems and non-combustible products,
- levels of competition among our customers, and
- regulatory and governmental factors.

The world supply of leaf tobacco at any given time is a function of current tobacco production, inventories held by manufacturers, and the stocks of leaf tobacco held by leaf tobacco suppliers. Production of tobacco in a given year may be significantly affected by such factors as:

- demographic shifts that change the number of farmers or the amount of land available to grow tobacco,
- decisions by farmers to grow crops other than leaf tobacco,
- volume of annual tobacco plantings and yields realized by farmers,
- availability of crop inputs,
- weather and natural disasters, including any adverse weather conditions that may result from climate change, and
- crop infestation and disease.

Any significant change in these factors could cause a material imbalance in the supply of and demand for tobacco, which would affect our results of operations.

*Our financial results will vary according to tobacco growing conditions, customer requirements, and other factors. These factors may also limit the ability to accurately forecast our future performance and increase the risk of an investment in our common stock or other securities.*

Our financial results, particularly our year-over-year quarterly comparisons, may be significantly affected by variations in tobacco growing seasons and fluctuations in crop sizes. The timing of the cultivation and delivery of tobacco is dependent upon a number of factors, including weather and other natural events, and our processing schedules and results of operations can be significantly altered by these factors. In addition, the potential impact of climate change is uncertain and may vary by geographic region. The possible effects, as described in various public accounts, could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, and changing temperature levels that could adversely impact our costs and business operations and the supply and demand for leaf tobacco. Our operations also rely on dependable and efficient transportation services. A disruption in transportation services, as a result of climate change or otherwise, may also significantly impact our results of operations.

Further, the timing of customer orders and shipments may vary and may require us to keep tobacco in inventory and may also result in variations in quarterly and annual financial results. We base sales recognition on meeting our performance obligation under our contract with the customer, which generally occurs with the passage of ownership of the tobacco. Since individual shipments may represent significant amounts of revenue, our quarterly and annual financial results may vary significantly depending on the timing of needs and shipping instructions of our customers and the availability of transportation services. These fluctuations result in varying volumes and sales in given periods, which also reduce the comparability of financial results.

*Major shifts in customer requirements for leaf tobacco supply may significantly affect our operating results.*

If our customers significantly alter their requirements for tobacco volumes from certain regions, we may have to change our production facilities and alter our fixed asset base in certain origins. Permanent or long-term reduction in demand for tobacco from origins where we have operations may trigger restructuring and impairment charges. We may also need to make significant capital investments in other regions to develop the needed infrastructure to meet customer supply requirements.

*Weather and other conditions can affect the marketability of our products.*

Tobacco and other agricultural crops are subject to vagaries of weather and the environment that can, in some cases, change the quality or size of the crops. If a weather event is particularly severe, such as a major drought or hurricane, the affected crop could be destroyed or damaged to an extent that it would be less desirable to manufacturers, which would result in a reduction in revenues. If such an event is also widespread, it could affect our ability to acquire the quantity of tobacco or fruit and vegetable ingredients required by our customers. In addition, other factors can affect the marketability of tobacco, including, among other things, the presence of excess residues of crop protection agents or non-tobacco related materials. A significant event impacting the condition or quality of a large amount of any of the crops that we buy could make it difficult for us to sell these products or to fill customers' orders.

*Our food ingredient business is subject to industry-specific risks which could adversely affect our operating results.*

Our food ingredients business is subject to risks posed by food spoilage or food contamination; shifting consumer preferences; federal, state, and local food processing regulations; product tampering; and product liability claims. If one or more of these risks were to materialize, our revenues and operating results could be adversely affected, and our reputation might be damaged.

*We may not be successful in pursuing strategic investments or acquisitions or realize the expected benefits of those transactions because of integration difficulties and other challenges.*

While we may identify opportunities for acquisitions and investments to support our growth strategy, as well as divestiture opportunities, our due diligence examinations and positions that we may take with respect to appropriate valuations for acquisitions and divestitures and other transaction terms and conditions may hinder our ability to successfully complete business transactions to achieve our strategic goals. We compete with other acquisitive entities for suitable acquisition candidates. This competition may increase the price for acquisitions and reduce the number of acquisition candidates available to us. As a result, our ability to acquire businesses in the future, and to acquire such businesses on favorable terms, may be limited. Our ability to realize the anticipated benefits from acquisitions will depend, in part, on successfully integrating each business with our Company as well as improving operating performance and profitability through our management efforts and capital investments. The risks to a successful integration and improvement of operating performance and profitability include, among others, failure to implement our business plan, unanticipated issues in integrating operations with ours, unanticipated changes in laws and regulations, regulatory, environmental and permitting issues, unfavorable customer reactions, the effect on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002, and difficulties in fully identifying and evaluating potential liabilities, risks and operating issues. In order to finance such acquisitions, we may need to obtain additional funds either through public or private financings, including bank and other secured and unsecured borrowings and the issuance of debt or equity securities. There can be no assurance that such financings would be available to us on reasonable terms or that any future issuances of securities in connection with acquisitions will not be dilutive to our shareholders. The occurrence of any of these events may adversely affect our expected benefits of any acquisitions and may have a material adverse effect on our financial condition, results of operations or cash flows.

*We may be adversely impacted if our information technology systems fail to perform adequately, including with respect to cybersecurity issues.*

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems (including those provided to us by third parties) to perform as we anticipate could disrupt our business and affect our results of operations.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches or intrusions (including theft of confidential data), and viruses. If we are unable to prevent physical and electronic break-ins, cyber-attacks and other information security breaches, we may suffer financial and reputational damage, be subject to litigation, or incur remediation costs or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, suppliers, or employees.

## **Regulatory and Governmental Factors**

*Government efforts to regulate the production and consumption of tobacco products could have a significant impact on the businesses of our leaf tobacco customers, which would, in turn, affect our results of operations.*

Governments continue their efforts to reduce the consumption of tobacco products globally by advancing regulations that, among other things, restrict or prohibit tobacco product use, advertising and promotion, increase taxes on tobacco products, limit nicotine levels in tobacco products, or eliminate the use of characterizing flavors.

A number of such measures are included in the World Health Organization's ("WHO") Framework Convention on Tobacco Control ("FCTC"), which entered into force on February 27, 2005, and currently has 181 Parties to the Convention. The Conference of the Parties ("COP"), which is the governing body of the WHO FCTC and is comprised of all Parties to the Convention, meets every two years to consider amendments to the agreement and track progress in the implementation of the treaty's 38 articles. It is not possible to predict how the signatories to the FCTC may choose to fulfill their obligations or the manner or the pace with which they may implement the FCTC articles, and they may take actions that could restrict or prohibit tobacco usage that could materially affect our business and our results of operations.

We also cannot predict the extent or speed at which the efforts of governments or non-governmental agencies to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption brought about by existing or future laws and regulations would reduce demand for tobacco products and could have a material adverse effect on our results of operations.

*Government actions can have a significant effect on the sourcing of leaf tobacco. If some of the current efforts are successful, we could have increased barriers in meeting our customers' requirements, which could have an adverse effect on our performance and results of operations.*

A variety of government actions can have a significant effect on the sourcing and production of leaf tobacco. If some of the current proposed efforts are successful, we could have increased barriers to meeting our customers' requirements, which could have an adverse effect on our performance and results of operations.

The WHO, through the FCTC, has specifically issued policy options and recommendations to promote crop diversification initiatives and alternatives to growing leaf tobacco in countries whose economies depend upon tobacco production. If certain countries were to follow these policy recommendations and seek to eliminate or significantly reduce leaf tobacco production, we could encounter difficulty in sourcing leaf tobacco from these regions to fill customer requirements, which could have an adverse effect on our results of operations.

Certain recommendations by the WHO, through the FCTC, may also cause shifts in customer usage of certain styles of tobacco. In countries such as Canada and Brazil and in the European Union, efforts have been taken to eliminate certain ingredients from the manufacturing process for tobacco products. The FCTC and national governments have also discussed formulating a strategy to place limitations on the level of nicotine allowed in tobacco and tobacco smoke. Such decisions could cause a change in requirements for certain styles of tobacco in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing challenges as requirements move from one origin to another.

Regulations impacting our customers that change the requirements for leaf tobacco or restrict their ability to sell their products would inherently impact our business. We have established programs that begin at the farm level to assist our customers' collection of raw material information to support leaf traceability and customer testing requirements, including the identification of nicotine levels. Additionally, given our global presence, we also have the ability to source different types and styles of tobacco for our customers should their needs change due to regulation. Despite our programs, the extent to which governmental actions will impact our business, financial condition, results of operations and demand for our products and services will depend on future developments, which are highly uncertain and cannot be predicted.

Continuous changes in bilateral, multilateral, and international trade agreements also have the potential to disrupt or impact Universal operations. For example, the World Trade Organization's resolution on the Large Civil Aircraft Dispute between the United States and the European Union resulted in both bodies imposing tariffs on a variety of products, including leaf tobacco. While these tariffs have been temporarily lifted and negotiations continue, drastic changes in global trade remains a risk to our results of operations. In addition, some trade proposals have included provisions that could effectively allow governments to regulate tobacco products differently than other products. These carve outs could negatively impact the industry and impact requirements for leaf tobacco.

*We conduct a significant portion of our operations internationally, so political and economic uncertainties in particular countries could have an adverse effect on our performance and results of operations.*

Our international operations are subject to uncertainties and risks relating to the political stability of certain foreign governments, principally in developing countries and emerging markets, as well as to the effects of changes in the trade policies and economic regulations of foreign governments. These uncertainties and risks, which include undeveloped or antiquated commercial law, the expropriation, indigenization, or nationalization of assets, and the authority to revoke or refuse to renew business licenses and work permits, may adversely impact our ability to effectively manage our operations in those countries. We have substantial capital investments in South America and Africa, and the performance of our operations in those regions can materially affect our earnings. If the political situation in any of the countries where we conduct business were to deteriorate significantly, our ability to recover assets located there could be impaired. To the extent that we do not replace any lost volumes of leaf tobacco with leaf tobacco from other sources, or we incur increased costs related to such replacement, our financial condition or results of operations, or both, would suffer.

*Increasing scrutiny and changing expectations from governments, as well as other stakeholders such as investors and customers, with respect to our Environmental, Social and Governance (“ESG”) policies may impose additional costs on us or expose us to additional risks.*

Governments, the non-governmental community, and industry increasingly understand the importance of implementing comprehensive environmental, labor, and governance practices. Our commitment to sustainability remains at the core of our business, and we continue to implement what we believe are responsible ESG practices. Government regulations, however, could result in new or more stringent forms of ESG oversight and disclosures. These may lead to increased expenditures for environmental controls, land use restrictions, reporting, and other conditions which could have an adverse effect on our performance and results of operations.

In addition, a number of governments are considering due diligence procedures to ensure strict compliance with environmental, labor, and government regulations. The European Union has recently proposed broad due diligence reporting requirements for all industries operating within Europe. The United States has called for a broader and more robust approach to labor compliance in foreign jurisdictions, which could include some of our strategic origins. Due to general uncertainty regarding the timing, content, and extent of any such regulatory changes in the United States or abroad, we cannot predict the impact, if any, that these changes could have to our business, financial condition, and results of operations.

*Changes in tax laws in the countries where we do business may adversely affect our results of operations.*

Through our subsidiaries, we are subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect our earnings, as can the resolution of various pending and contested tax issues. In most jurisdictions, we regularly have audits and examinations by the designated tax authorities, and additional tax assessments are common. We believe that we comply with applicable tax laws in the jurisdictions where we operate, and we vigorously contest all significant tax assessments where we believe we are in compliance with the tax laws.

## **Financial Factors**

*Failure of our customers or suppliers to repay extensions of credit could materially impact our results of operations.*

In our tobacco operations, we extend credit to both suppliers and customers. A significant bad debt provision related to amounts due could adversely affect our results of operations. In addition, crop advances to leaf tobacco farmers are generally secured by the farmers’ agreement to deliver green tobacco. In the event of crop failure, delivery failure, or permanent reductions in crop sizes, full recovery of advances may never be realized, or otherwise could be delayed until future crops are delivered. See Notes 1 and 17 to the consolidated financial statements in Item 8 for more information on these extensions of credit.

*Fluctuations in foreign currency exchange rates may affect our results of operations.*

We account for most of our tobacco operations using the U.S. dollar as the functional currency. The international tobacco trade generally is conducted in U.S. dollars, and we finance most of our tobacco operations in U.S. dollars. Although this generally limits foreign exchange risk to the economic risk that is related to leaf purchase and production costs, overhead, and income taxes in the source country, significant currency movements could materially impact our results of operations. Changes in exchange rates can make a particular leaf tobacco crop more or less expensive in U.S. dollar terms. If a particular crop is viewed as expensive in U.S. dollar terms, it may be less attractive in the world market. This could negatively affect the profitability of that crop and our results of operations. In tobacco markets that are primarily domestic, the local currency is the functional currency. In addition, the local currency is the functional currency in other leaf tobacco markets, such as Western Europe, where export sales have been denominated primarily in local currencies. In these markets, reported earnings are affected by the translation of the local currency into the U.S. dollar. See Item 7A, “Qualitative and Quantitative Disclosure About Market Risk” for additional discussion related to foreign currency exchange risk.



Our purchases of tobacco are generally made in local currency, and we also provide farmer advances that are denominated in the local currency. We account for currency remeasurement gains or losses on those advances as period costs, and they are usually accompanied by offsetting increases or decreases in the purchase cost of tobacco, which is priced in the local currency. The effect of differences in the cost of tobacco is generally not realized in our earnings until the tobacco is sold, which often occurs in a quarter or fiscal year subsequent to the recognition of the related remeasurement gains or losses. The difference in timing could affect our profitability in a given quarter or fiscal year.

We have used currency hedging strategies to reduce our foreign currency exchange rate risks in some markets. In addition, where we source tobacco in countries with illiquid or nonexistent forward foreign exchange markets, we often manage our foreign exchange risk by matching funding for tobacco inventory purchases with the currency of sale and by minimizing our net investment in these countries. To the extent that we have net monetary assets or liabilities in local currency, and those balances are not hedged, we may have currency remeasurement gains or losses that will affect our results of operations.

*Changes in interest rates may affect our results of operations.*

We generally use both fixed and floating interest rate debt to finance our operations. Changes in market interest rates expose us to changes in cash flows for floating rate instruments and to changes in fair value for fixed rate instruments. We normally maintain a proportion of our debt in both variable and fixed interest rates to manage this exposure, and from time to time we may enter hedge agreements to swap the interest rates. In addition, our customers may pay market rates of interest for leaf tobacco inventory purchased on order, which could mitigate a portion of the floating interest rate exposure on short-term borrowings. To the extent we are unable to match these interest rates, a decrease in interest rates could increase our net financing costs. We also periodically have large cash balances and may receive deposits from tobacco customers, both of which we use to fund seasonal purchases of tobacco, reducing our financing needs. Decreases in short-term interest rates could reduce the income we derive from those investments. Changes in interest rates also affect expense related to our defined benefit pension plan, as described below.

*Low investment performance by our defined benefit pension plan assets and changes in pension plan valuation assumptions may increase our pension expense and may require us to fund a larger portion of our pension obligations, thus diverting funds from other potential uses.*

We sponsor domestic defined benefit pension plans that cover certain eligible employees. Our results of operations may be positively or negatively affected by the amount of expense we record for these plans. U.S. generally accepted accounting principles (“GAAP”) require that we calculate expense for the plans using actuarial valuations. These valuations reflect assumptions about financial market and other economic conditions that may change based on changes in key economic indicators. The most significant year-end assumptions we used to estimate pension expense for fiscal year 2021 were the discount rate, the expected long-term rate of return on plan assets, and the mortality rates. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to shareholders’ equity through a reduction or increase to the “Pension and other postretirement benefit plans” component of Accumulated Other Comprehensive Loss. At the end of fiscal year 2021, the projected benefit obligation of our qualified U.S. pension plan was \$250 million and plan assets were \$261 million. For a discussion regarding how our financial statements can be affected by pension plan valuation assumptions, see “Critical Accounting Estimates – Pension and Other Postretirement Benefit Plans” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and in Note 13 to the consolidated financial statements in Item 8. Although GAAP expense and pension funding contributions are not directly related, key economic factors that affect GAAP expense can also affect the amount of cash we are required to contribute to our pension plans under requirements of the Employee Retirement Income Security Act (“ERISA”). Failure to achieve expected returns on plan assets could also result in an increase to the amount of cash we would be required to contribute to our pension plans. In order to maintain or improve the funded status of our plans, we may also choose to contribute more cash to our plans than required by ERISA regulations.

#### **Item 1B. Unresolved Staff Comments**

None

## Item 2. Properties

We own the following significant properties (greater than 500,000 square feet):

<b>Location</b>	<b>Principal Use</b>	<b>Building Area</b> (Square Feet)
<b>Tobacco Operations:</b>		
<b>United States</b>		
Nash County, North Carolina .....	Factory and storages	1,323,000
Lancaster, Pennsylvania .....	Factory and storages	793,000
<b>Brazil</b>		
Santa Cruz .....	Factory and storages	2,386,000
<b>Malawi</b>		
Lilongwe .....	Factory and storages	942,000
<b>Mozambique</b>		
Tete .....	Factory and storages	770,000
<b>Philippines</b>		
Agoo, La Union .....	Factory and storages	770,000
<b>Tanzania</b>		
Morogoro .....	Factory and storages	895,000
<b>Zimbabwe</b>		
Harare <sup>(1)</sup> .....	Factory and storages	1,445,000
<b>Ingredients Operations:</b>		
<b>United States</b>		
Momence, Illinois .....	Factory and storages	407,000
Grandview, Washington .....	Factory and storages	125,000
Prosser, Washington .....	Factory and storages	335,000

<sup>(1)</sup> Owned by an unconsolidated subsidiary.

We lease headquarters office space of about 50,000 square feet at 9201 Forest Hill Avenue in Richmond, Virginia, which we believe is adequate for our current needs.

Our business involves, among other things, storing and processing green tobacco and storing processed tobacco. We operate processing facilities in major tobacco growing areas. In addition, we require tobacco storage facilities that are in close proximity to the processing facilities. We own most of the tobacco storage facilities, but we lease additional space as needs arise. We believe that the properties currently utilized in our tobacco operations are maintained in good operating condition and are suitable and adequate for our purposes at our current volumes.

In addition to our significant properties listed above, we own other processing facilities in the following countries: Germany, Guatemala, Italy, the Netherlands, Poland, and the United States. In addition, we have an ownership interest in a processing plant in Mexico and have access to processing facilities in other areas, such as India, the People's Republic of China, and South Africa. Socotab L.L.C., an oriental tobacco joint venture in which we own a noncontrolling interest, owns tobacco processing plants in Bulgaria, Macedonia, and Turkey.

Except for the Lancaster, Pennsylvania facility, the facilities described above are engaged primarily in processing tobaccos used by manufacturers in the production of cigarettes. The Lancaster facility, as well as facilities in Brazil, the Dominican Republic, Indonesia, and Paraguay, process tobaccos used in making cigar, pipe, and smokeless products, as well as components of certain "roll-your-own" products.

As discussed in Note 4 to the consolidated financial statements in Item 8, due to changes that have affected the Company's operations in Tanzania, an impairment charge was recorded during the third quarter of fiscal year 2019 to reduce the carrying values of the factory and storages in Morogoro, Tanzania to their estimated fair values.

**Item 3. Legal Proceedings**

Some of our subsidiaries are involved in other litigation or legal matters incidental to their business activities. While the outcome of these matters cannot be predicted with certainty, we are vigorously defending the matters and do not currently expect that any of them will have a material adverse effect on our business or financial position. However, should one or more of these matters be resolved in a manner adverse to our current expectation, the effect on our results of operations for a particular fiscal reporting period could be material.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Common Equity

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “UVV.”

Our current dividend policy anticipates the payment of quarterly dividends in the future. However, the declaration and payment of dividends to holders of common stock is at the discretion of the Board of Directors and will be dependent upon our future earnings, financial condition, and capital requirements. Under certain of our credit facilities, we must meet financial covenants relating to minimum tangible net worth and maximum levels of debt. If we were not in compliance with them, these financial covenants could restrict our ability to pay dividends. We were in compliance with all such covenants at March 31, 2021. At May 25, 2021, there were 956 holders of record of our common stock. See Notes 9 and 14 to the consolidated financial statements in Item 8 for more information on debt covenants and equity securities.

#### Purchases of Equity Securities

As indicated in the following table, we did not repurchase shares of our common stock during the three-month period ended March 31, 2021.

Period <sup>(1)</sup>	Common Stock			
	Total Number of Shares Repurchased	Average Price Paid Per Share <sup>(2)</sup>	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs <sup>(3)</sup>	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(3)</sup>
January 1-31, 2021.....	—	\$ —	—	\$ 100,000,000
February 1-28, 2021.....	—	—	—	100,000,000
March 1-31, 2021.....	—	—	—	100,000,000
Total.....	—	\$ —	—	\$ 100,000,000

<sup>(1)</sup> Repurchases are based on the date the shares were traded. This presentation differs from the consolidated statement of cash flows, where the cost of share repurchases is based on the date the transactions were settled.

<sup>(2)</sup> Amounts listed for average price paid per share include broker commissions paid in the transactions.

<sup>(3)</sup> A stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 5, 2020. This stock repurchase plan authorizes the purchase of up to \$100 million in common and/or preferred stock in open market or privately negotiated transactions through November 15, 2022 or when we have exhausted the funds authorized for the program, subject to market conditions and other factors.



## Item 6. Selected Financial Data

	Fiscal Year Ended March 31,				
	2021	2020	2019	2018	2017
	(in thousands, except share and per share data, ratios, and number of shareholders)				
<b>Summary of Operations</b>					
Sales and other operating revenues	\$ 1,983,357	\$ 1,909,979	\$ 2,227,153	\$ 2,033,947	\$ 2,071,218
Operating income	\$ 147,810	\$ 126,367	\$ 161,169	\$ 170,825	\$ 178,401
Segment operating income <sup>(1)</sup>	\$ 169,199	\$ 138,121	\$ 186,772	\$ 179,950	\$ 188,534
Net income	\$ 96,314	\$ 78,003	\$ 110,134	\$ 116,168	\$ 112,506
Net income attributable to Universal Corporation <sup>(2)</sup>	\$ 87,410	\$ 71,680	\$ 104,121	\$ 105,662	\$ 106,304
Earnings available to Universal Corporation common shareholders	\$ 87,410	\$ 71,680	\$ 104,121	\$ 105,662	\$ 20,890
Return on beginning common shareholders' equity	7.0 %	5.4 %	7.8 %	8.2 %	1.7 %
Earnings per share attributable to Universal Corporation common shareholders:					
Basic	\$ 3.55	\$ 2.87	\$ 4.14	\$ 4.18	\$ 0.89
Diluted	\$ 3.53	\$ 2.86	\$ 4.11	\$ 4.14	\$ 0.88
<b>Financial Position at Year End</b>					
Current ratio	5.31	5.53	6.26	5.94	5.83
Total assets	\$ 2,341,924	\$ 2,120,921	\$ 2,133,184	\$ 2,168,632	\$ 2,123,405
Long-term debt	\$ 518,172	\$ 368,764	\$ 368,503	\$ 369,086	\$ 368,733
Working capital	\$ 1,262,201	\$ 1,212,218	\$ 1,334,397	\$ 1,321,323	\$ 1,293,403
Total Universal Corporation shareholders' equity	\$ 1,307,299	\$ 1,246,665	\$ 1,337,087	\$ 1,342,429	\$ 1,286,489
<b>General</b>					
Number of common shareholders	962	1,000	1,028	1,131	1,182
Weighted average common shares outstanding:					
Basic	24,656,009	24,982,259	25,129,192	25,274,975	23,433,860
Diluted	24,788,566	25,106,351	25,330,437	25,508,144	23,770,088
Dividends per share of convertible perpetual preferred stock (annual) <sup>(3)</sup>	\$ —	\$ —	\$ —	\$ —	\$ 50.63
Dividends per share of common stock (annual)	\$ 3.08	\$ 3.04	\$ 3.00	\$ 2.18	\$ 2.14
Book value per common share	\$ 53.33	\$ 51.05	\$ 53.50	\$ 53.85	\$ 50.90

<sup>(1)</sup> We evaluate the performance of our segments based on segment operating income, which is operating income after allocated overhead expenses (excluding significant non-recurring charges or credits), plus equity in the pretax earnings of unconsolidated affiliates. Segment operating income is a non-GAAP measure. See Note 17 to the consolidated financial statements in Item 8 of this Annual Report for information on reportable operating segments.

<sup>(2)</sup> We hold less than a 100% financial interest in certain consolidated subsidiaries, and a portion of net income is attributable to the noncontrolling interests in those subsidiaries.

<sup>(3)</sup> In December 2016 and January 2017, all outstanding shares of the Company's Series B 6.75% Convertible Perpetual Preferred Stock were converted for common stock or for cash, and none were outstanding during fiscal years 2018 to 2020.

Significant items included in the operating results in the above table are as follows:

- Fiscal Year 2021 – \$22.6 million of restructuring and impairment costs, primarily related to the termination of operations at CIFI, as well as other restructurings and impairments in the Tobacco operations segment. The restructuring and impairment costs included employee termination benefits, as well as impairment charges related to certain property, plant, equipment, as well as other current and noncurrent assets. The restructuring and impairment costs reduced net income by \$17.8 million, or \$0.72 per diluted share. We incurred \$3.9 million of non-tax deductible transaction costs associated with the acquisition of Silva that reduced diluted earnings per share by \$0.16. We recognized a \$2.8 million expense in cost of goods sold relating to the expensing of a fair value adjustment to inventory associated with the initial acquisition accounting for Silva that reduced diluted earnings per share by \$0.11. We reversed a portion of the contingent consideration liability for the FruitSmart acquisition, as a result of

certain performance metrics that did not meet the required threshold stipulated in the purchase agreement that increased net income by \$4.2 million, or \$0.17 per diluted share. We recognized an income tax settlement charge related to operations at a foreign subsidiary that reduced net income by \$1.8 million, or \$0.08 per diluted share. In addition, we benefited from an income tax benefit of \$4.4 million related to final U.S. tax regulations on certain dividends paid by foreign subsidiaries. The reduction in income tax expense increased diluted earnings per share by \$0.18. On a combined basis, the net effect of these items decreased net income by \$17.8 million, or \$0.72 per diluted share.

- Fiscal Year 2020 – \$7.5 million of restructuring and impairment costs, primarily related to our tobacco operations in North Carolina and Africa. The restructuring and impairment costs included employee termination benefits, as well as impairment charges related to certain property, plant, equipment, and noncurrent assets. The restructuring and impairment costs reduced net income by \$6.3 million, or \$0.25 per diluted share. We incurred \$4.7 million of non-tax deductible transaction costs associated with the acquisition of FruitSmart that reduced diluted earnings per share by \$0.19. We recognized a \$2.7 million expense in cost of goods sold relating to the expensing of a fair value adjustment to inventory associated with the initial acquisition accounting for FruitSmart, that reduced net income by \$2.1 million, or \$0.08 per diluted share. Additionally, income tax expense included \$2.8 million for the settlement of an income tax matter related to a foreign subsidiary that reduced diluted earnings per share by \$0.11. On a combined basis, the net effect of these items decreased net income by \$15.9 million, or \$0.63 per diluted share.
- Fiscal Year 2019 – \$20.3 million of restructuring and impairment costs, primarily related to our operations in Tanzania. The restructuring and impairment costs included employee termination benefits, as well as impairment charges related to certain property, plant, equipment, and goodwill. The restructuring and impairment costs reduced net income by \$16.5 million, or \$0.64 per diluted share. In addition, we benefited from a \$7.8 million reduction in income tax expense for the reversal of amounts previously recorded for dividend withholding taxes on distributed and undistributed retained earnings of a foreign subsidiary following the resolution of uncertainties with the local country taxing authorities with respect to the inclusion of the tax under a tax holiday applicable to the subsidiary. The reduction of income tax expense increased diluted earnings per share by \$0.30. On a combined basis, the net effect of these items decreased net income by \$8.7 million, or \$0.34 per diluted share.
- Fiscal Year 2018 – a \$4.5 million reduction of income tax expense from the enactment of the Tax Cuts and Jobs Act in December 2017. The reduction in income tax expense increased diluted earnings per share by \$0.18.
- Fiscal Year 2017 – \$4.4 million of restructuring and impairment costs, primarily related to our decision to close our tobacco processing facility in Hungary. We are now processing tobaccos sourced from Hungary in our facilities in Italy. The restructuring and impairment costs reduced net income by \$2.8 million, or \$0.10 per diluted share. In addition, all 218,490 outstanding shares of our Series B 6.75% Convertible Perpetual Preferred Stock were converted during the third and fourth quarters. Of the total shares converted, 107,418 shares were converted for cash, resulting in a reduction of retained earnings of approximately \$74.4 million for the excess of the conversion cost over the carrying value of the shares. The reduction in retained earnings resulted in a corresponding one-time reduction of earnings available to common shareholders for purposes of determining the amounts reported for basic and diluted earnings per share for the year. The reduction in earnings available to common shareholders decreased diluted earnings per share by \$2.99.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, Part I, Item 1, “Business” and Item 8, “Financial Statements and Supplementary Data.” For information on risks and uncertainties related to our business that may make past performance not indicative of future results, or cause actual results to differ materially from any forward-looking statements, see “General,” and Part I, Item 1A, “Risk Factors.”*

### **OVERVIEW**

Universal Corporation is a global business-to-business agri-products supplier to consumer product manufacturers, operating in over 30 countries on five continents, that sources and processes leaf tobacco and plant-based ingredients. Tobacco has been our principal focus since our founding in 1918, and we are the leading global leaf tobacco supplier. Through our plant-based ingredients platform, we provide a variety of value-added manufacturing processes to produce high-quality, specialty vegetable and fruit-based ingredients to food and beverage end markets. We have been finding innovative solutions to serve our customers and meet their agri-product needs for more than 100 years. We derive most of our revenues from sales of processed tobacco to manufacturers of tobacco products throughout the world and from fees and commissions for specific services. We hold a strategic position in the world leaf tobacco markets where we work closely with both our customers and farmers to ensure that we deliver a compliant product that meets our customers' needs while promoting a strong supplier base. We adapt to meet changes in customer requirements as well as broader changes in the leaf tobacco markets, while continuing to provide the stability of supply and high level of service that distinguishes us in the marketplace. We believe that we have successfully met the needs of both our customers and suppliers while adapting to changes in leaf tobacco markets.

Recognizing that leaf tobacco is a mature industry, we have also been positioning our company for the future by investing in strengthening our plant-based agri-product services platform, while maintaining our position as the leading global leaf tobacco supplier. In fiscal year 2021 we made considerable progress towards building and enhancing our plant-based ingredients platform. On October 1, 2020, we acquired Silva, a natural, specialty dehydrated vegetable, fruit, and herb processing company. We have also been working diligently on integrating and exploring opportunities for synergies between our recently acquired businesses, FruitSmart, acquired on January 1, 2020, and Silva.

Given our significant and strategic investments in our plant-based ingredients platform, we evaluated our operating segments for financial reporting purposes during the quarter ended December 31, 2020. Based on our evaluation, we determined that we conduct our operations across two primary reportable operating segments, Tobacco Operations and Ingredients Operations. The revised segments reflect how we manage the Company, allocate resources, and assess business performance. Prior period segment information has been recast retrospectively to reflect these changes.

### **COVID-19 Pandemic Impact**

On March 11, 2020, the World Health Organization declared the coronavirus (“COVID-19”) a pandemic. Foreign governmental organizations and governmental organizations in the United States have taken various actions to combat the spread of COVID-19, including imposing stay-at-home orders and closing “non-essential” businesses and their operations. We continue to closely monitor developments related to the ongoing COVID-19 pandemic and have taken and continue to take steps intended to mitigate the potential risks to us. It is paramount that our employees who operate our businesses are safe and informed. We have assessed and regularly update our existing business continuity plans for our business in the context of this pandemic. For example, we have taken precautions with regard to employee and facility hygiene, imposed travel limitations on our employees, implemented work-from-home procedures, and we continue to assess and reevaluate protocols designed to protect our employees, customers and the public.

We continue to work with our suppliers to mitigate the impacts to our supply chain due to the ongoing pandemic. To date, we have not experienced a material impact to our supply chain, although the ongoing COVID-19 pandemic resulted in delays in certain operations during fiscal year 2021. In addition, our plant-based ingredients platform has seen some shifts in product mix due to the ongoing COVID-19 pandemic related to changes in customer demand. Since March 2020, we have at times also experienced increased volatility in foreign currency exchange rates, which we believe is in part related to the continued uncertainties from COVID-19, as well as actions taken by governments and central banks in response to COVID-19.

We continue to monitor the impacts of the ongoing COVID-19 pandemic. We believe we currently have sufficient liquidity to meet our current obligations and our business operations remain fundamentally unchanged other than shipping delays, which could continue to impact quarterly comparisons. This is, however, a rapidly evolving situation, and we cannot predict the extent, resurgence, or duration of the ongoing COVID-19 pandemic, the effects of it on the global, national or local economy, including the impacts on our ability to access capital, or its effects on our business, financial position, results of operations, and cash flows. We continue to monitor developments affecting our employees, customers and operations.

## RESULTS OF OPERATIONS

*Amounts described as net income (loss) and earnings (loss) per diluted share in the following discussion are attributable to Universal Corporation and exclude earnings related to non-controlling interests in subsidiaries. Adjusted operating income (loss), adjusted net income (loss) attributable to Universal Corporation, adjusted diluted earnings (loss) per share, and the total for segment operating income (loss) referred to in this discussion are non-GAAP financial measures. These measures are not financial measures calculated in accordance with GAAP and should not be considered as substitutes for operating income (loss), net income (loss) attributable to Universal Corporation, diluted earnings (loss) per share, cash from operating activities or any other operating or financial performance measure calculated in accordance with GAAP, and may not be comparable to similarly-titled measures reported by other companies. A reconciliation of adjusted operating income (loss) to consolidated operating (income), adjusted net income (loss) attributable to Universal Corporation to consolidated net income (loss) attributable to Universal Corporation and adjusted diluted earnings (loss) per share to diluted earnings (loss) per share are provided in Other Items below. In addition, we have provided a reconciliation of the total for segment operating income (loss) to consolidated operating income (loss) in Note 17. "Operating Segments" to the consolidated financial statements in Item 8. Management evaluates the consolidated Company and segment performance excluding certain significant charges or credits. We believe these non-GAAP financial measures, which exclude items that we believe are not indicative of our core operating results, provide investors with important information that is useful in understanding our business results and trends.*

### **Fiscal Year Ended March 31, 2021, Compared to the Fiscal Year Ended March 31, 2020**

#### **Executive Summary**

We are pleased to report that our net income and diluted earnings per share, and our non-GAAP adjusted operating income for fiscal year 2021, are all up over 20% compared to fiscal year 2020. Strong leaf tobacco shipments in the second half of fiscal year 2021, the addition of our plant-based ingredients acquisitions, and favorable foreign currency comparisons all contributed to this improvement in our results. We are especially proud that we were able to deliver these results in the midst of the COVID-19 pandemic, and would like to thank our employees, growers, customers, and other partners for their support, adaptability, and hard work that made this a successful year.

Leaf tobacco shipments, which started slowly in fiscal year 2021, accelerated in the second half of the fiscal year. We ended the year with leaf tobacco volumes that were just slightly below those in fiscal year 2020, in part due to some tobacco shipments that were delayed and will ship in fiscal year 2022. Despite global challenges including increased safety protocols, work-from-home mandates, and travel restrictions that necessitated adjustment to how we conduct our leaf tobacco business, we successfully delivered the leaf tobacco desired by our customers.

We also delivered on our capital allocation strategy objective to build and enhance our plant-based ingredients platform through the acquisition of Silva in the third quarter of fiscal year 2021. We are excited about the prospects for our plant-based ingredients platform and continue to progress on our integration process. In the fourth quarter of fiscal year 2021, our Ingredients Operations segment performed well against its objectives in both the human and pet food categories.

In the year ended March 31, 2021, we benefited from positive net foreign currency comparisons, mostly non-cash currency remeasurement, of \$26 million, compared to fiscal year 2020. Certain currencies weakened significantly in the fourth quarter of fiscal year 2020, largely due to uncertain market conditions related to the burgeoning COVID-19 pandemic. We ended our fiscal year 2021 with a strong balance sheet and uncommitted leaf tobacco inventory levels just over our target range, at 22%. In addition to our investments in growth opportunities, we are also pleased to have announced our 51<sup>st</sup> annual dividend increase, continuing our commitment to delivering shareholder value.

As we move into fiscal year 2022, we currently expect global supply for flue-cured leaf tobacco to be in line with anticipated demand and for burley leaf tobacco to be in a slight undersupply position. We are continuing to monitor freight costs as the COVID-19 pandemic disrupted shipping patterns, which has resulted in cost increases due to limited container availability.

We published our second annual Sustainability Report in fiscal year 2021 on our website. The report showcases our strong commitment to our sustainability programs and initiatives which stems from our belief that sustainability is a key component of our past and future success. In fiscal year 2022, we will continue to deliver on our fundamental responsibility to our stakeholders to set high standards of social and environmental performance to support a sustainable supply chain.



## FINANCIAL HIGHLIGHTS

(in millions of dollars, except per share data)	Fiscal Year Ended March 31,		Change	
	2021	2020	\$	%
<b>Consolidated Results</b>				
Sales and other operating revenue	\$ 1,983.4	\$ 1,910.0	\$ 73.4	4 %
Cost of goods sold	1,597.4	1,553.2	44.2	3 %
Gross Profit Margin	19.5 %	18.7 %	---	80 bps
Selling, general and administrative expenses	219.8	222.9	(3.1)	(1)%
Restructuring and impairment costs	22.6	7.5	15.0	199 %
Operating income (as reported)	147.8	126.4	21.4	17 %
Adjusted operating income (non-GAAP)*	172.9	141.3	31.7	22 %
Diluted earnings per share (as reported)	3.53	2.86	0.67	24 %
Adjusted diluted earnings per share (non-GAAP)*	4.25	3.49	0.76	22 %
<b>Segment Results</b>				
Tobacco operations sales and other operating revenues	\$ 1,841.8	\$ 1,887.1	\$ (45.2)	(2)%
Tobacco operations operating income	168.8	146.6	22.2	15 %
Ingredients operations sales and other operating revenues	141.5	22.9	118.6	518 %
Ingredient operations operating income	0.4	(8.5)	8.9	(104)%

\*See Reconciliation of Certain Non-GAAP Financial Measures in Other Items below

Net income for the fiscal year ended March 31, 2021, was \$87.4 million, or \$3.53 per diluted share, compared with \$71.7 million, or \$2.86 per diluted share, for the fiscal year ended March 31, 2020. Excluding restructuring and impairment costs and certain other non-recurring items, detailed in Other Items below, net income and diluted earnings per share increased by \$17.6 million and \$0.76, respectively, for fiscal year 2021, compared to fiscal year 2020. Operating income of \$147.8 million for the year ended March 31, 2021, increased by \$21.4 million, compared to operating income of \$126.4 million for the year ended March 31, 2020. Adjusted operating income, detailed in Other Items below, of \$172.9 million increased by \$31.7 million for fiscal year 2021, compared to adjusted operating income of \$141.3 million for fiscal year 2020.

Consolidated revenues increased by \$73.4 million to \$2.0 billion for the year ended March 31, 2021, compared to the fiscal year ended March 31, 2020, on the addition of businesses acquired in calendar year 2020 in the Ingredients Operations segment, offset in part by lower comparative leaf tobacco shipment volumes.

### Tobacco Operations

Operating income for the Tobacco Operations segment increased by \$22.2 million to \$168.8 million for the fiscal year ended March 31, 2021, compared with the fiscal year ended March 31, 2020. Favorable foreign currency remeasurement comparisons and strong tobacco shipment volumes benefited Tobacco Operations segment results for the year ended March 31, 2021. Tobacco shipment volumes for fiscal year 2021, which were heavily weighted to the second half of the fiscal year, ended up just slightly below tobacco shipment volumes for fiscal year 2020.

In fiscal year 2021, compared to fiscal year 2020, sales volumes were up in Brazil and the United States on higher sales of carryover crop tobacco, while volumes decreased in Africa in part on weather reduced crop sizes as well as some delayed shipments that will occur in fiscal year 2022. Selling, general, and administrative costs for the segment were lower for fiscal year 2021, compared to fiscal year 2020, largely on favorable net foreign currency remeasurement comparisons, mainly in Indonesia and Brazil. A favorable product mix and continued strong wrapper demand also benefited Tobacco Operations results in fiscal year 2021. Revenues for the Tobacco Operations segment of \$1.8 billion for fiscal year 2021 were down \$45.2 million, compared to fiscal year 2020, on slightly lower leaf tobacco shipment volumes and sales prices.

### Ingredients Operations

As part of our capital allocation strategy to build and enhance our plant-based ingredients platform, we acquired two companies, FruitSmart on January 1, 2020, and Silva on October 1, 2020. We also made the strategic decision to wind down our CIFI business in the quarter ended December 31, 2020.

Operating income for the Ingredients Operations segment was \$0.4 million for the fiscal year ended March 31, 2021, compared to an operating loss of \$8.5 million for the fiscal year ended March 31, 2020. Results for the segment included costs from amortization of intangibles related to the acquisitions, which totaled \$6.4 million in the fiscal year ended March 31, 2021, as

well as purchase accounting adjustments of \$2.8 million in year ended March 31, 2021, and \$2.7 million in the year ended March 31, 2020, that also reduced our results for the segment. Our Ingredients Operations saw some changes in product mix during fiscal year 2021 due to changes in customer demand resulting from the ongoing COVID-19 pandemic. While demand for ingredients used in products for restaurants and social venues declined, we saw demand increase for ingredients used in grocery items and pet foods. In the fourth quarter of fiscal year 2021, we began to see demand for our products recover from certain sectors, such as food service, which were negatively impacted by COVID-19. Selling, general, and administrative expenses increased in the fiscal year ended March 31, 2021, on the addition of the acquired businesses. Revenues for the Ingredients Operations segment of \$141.5 million for the fiscal year ended March 31, 2021, were up \$118.6 million, compared to the fiscal year ended March 31, 2020, on the addition of the revenues for the acquired businesses.

#### **Other Items**

Cost of goods sold in the fiscal year ended March 31, 2021, increased by 3% to \$1.6 billion, compared with the fiscal year ended March 31, 2020, as a result of variances in tobacco shipment volumes and green tobacco prices as well as the acquisition of businesses in the Ingredients Operations segment. Selling, general, and administrative costs for the fiscal year ended March 31, 2021, decreased by \$3.1 million to \$219.8 million, compared to the fiscal year ended March 31, 2020, as positive comparisons on foreign currency remeasurement and exchange variances more than offset additional costs from the business acquisitions in the Ingredients Operations segment. The positive foreign currency remeasurement and exchange variances, primarily in Indonesia and Brazil, totaled approximately \$26 million in the fiscal year ended March 31, 2021.

For the fiscal year ended March 31, 2021, our consolidated effective tax rate was 23%. For the fiscal year ended March 31, 2021, income tax expense included a \$4.4 million benefit for final tax regulations regarding the treatment of dividends paid by foreign subsidiaries and a \$3.4 million benefit due to amending and finalizing prior year returns. Without these benefits, the consolidated effective tax rate for the fiscal year ended March 31, 2021, would have been approximately 30%.

Our consolidated effective tax rate for the fiscal year ended March 31, 2020, was approximately 34%. Income tax expense for the fiscal year ended March 31, 2020 included a \$2.8 million net tax accrual for a tax settlement charge related to operations at a foreign subsidiary and a \$1.5 million benefit due to amending and finalizing prior year returns. Without the effect of these items, the consolidated effective tax rate for the fiscal year ended March 31, 2020, would have been approximately 30%.

## Reconciliation of Certain Non-GAAP Financial Measures

The following tables set forth certain non-recurring items included in reported results to reconcile adjusted operating income to consolidated operating income and adjusted net income to net income attributable to Universal Corporation:

### Adjusted Operating Income Reconciliation

(in thousands)	Fiscal Year Ended March 31,	
	2021	2020
As Reported: Consolidated operating income	\$ 147,810	\$ 126,367
Purchase accounting adjustments <sup>(1)</sup>	2,800	2,700
Transaction costs for acquisitions <sup>(2)</sup>	3,915	4,668
Fair value adjustment to contingent consideration for FruitSmart acquisition <sup>(3)</sup>	(4,173)	—
Restructuring and impairment costs <sup>(4)</sup>	22,577	7,543
Adjusted operating income	<u>\$ 172,929</u>	<u>\$ 141,278</u>

### Adjusted Net Income and Diluted Earnings Per Share Reconciliation

(in thousands except for per share amounts) (all amounts reported net of income taxes)	Fiscal Year Ended March 31,	
	2021	2020
As Reported: Net income attributable to Universal Corporation	\$ 87,410	\$ 71,680
Purchase accounting adjustments <sup>(1)</sup>	2,800	2,133
Transaction costs for acquisitions <sup>(2)</sup>	3,915	4,668
Fair value adjustment to contingent consideration for FruitSmart acquisition <sup>(3)</sup>	(4,173)	—
Restructuring and impairment costs <sup>(4)</sup>	17,800	6,283
Interest expense related to an uncertain tax matter at a foreign subsidiary	1,849	—
Income tax benefit from dividend withholding tax liability reversal <sup>(5)</sup>	(4,421)	—
Income tax settlement for foreign subsidiary <sup>(6)</sup>	—	2,766
Adjusted Net income attributable to Universal Corporation	<u>\$ 105,180</u>	<u>\$ 87,530</u>
As reported: Diluted earnings per share	\$ 3.53	\$ 2.86
Adjusted: Diluted earnings per share	\$ 4.25	\$ 3.49

(1) The Company recognized an increase in cost of goods sold in fiscal year 2021 and 2020, relating to the expensing of a fair value adjustments to inventory associated with the initial acquisition accounting for Silva (effective October 1, 2020) and FruitSmart (effective January 1, 2020).

(2) The Company incurred selling, general, and administrative expenses for due diligence and other transaction costs associated with the acquisitions of Silva and FruitSmart. These costs are not deductible for U.S. income tax purposes.

(3) The Company reversed a portion of the contingent consideration liability for the FruitSmart acquisition, as a result of certain performance metrics that did not meet the required threshold stipulated in the purchase agreement.

(4) Restructuring and impairment costs are included in Consolidated operating income in the consolidated statements of income, but excluded for purposes of Adjusted operating income, Adjusted net income attributable to Universal Corporation, and Adjusted diluted earnings per share. See Note 4 for additional information.

(5) The Company recognized an income tax benefit for final U.S. tax regulations on certain dividends paid by foreign subsidiaries in a prior fiscal year.

(6) The Company recognized an income tax settlement charge related to operations at a foreign subsidiary.

### Fiscal Year Ended March 31, 2020, Compared to the Fiscal Year Ended March 31, 2019

For a comparison of our performance and financial metrics for the fiscal years ended March 31, 2020 and March 31, 2019, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, filed with the SEC on May 28, 2020.

### Accounting Pronouncements

See "Accounting Pronouncements" in Note 1 to the consolidated financial statements in Item 8 of this Annual Report for a discussion of recent accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") that will become effective and be adopted by the Company in future reporting periods.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Our working capital requirements in fiscal year 2021 were lower than those in fiscal year 2020 mainly due to higher carryover crop sales of leaf tobacco, lower green leaf tobacco prices, and smaller African tobacco crops. In fiscal year 2021, we also generated \$220.4 million in cash flows from our operating activities, and our liquidity was sufficient to meet our needs. We continued our conservative financial policies and returned funds to shareholders.

Our liquidity and capital resource requirements are predominately short-term in nature and primarily relate to working capital for tobacco crop purchases, and our primary sources of liquidity are net cash flows provided by operating activities and our committed revolving credit facility. Working capital needs for tobacco crop purchases are seasonal within each geographic region. The geographic dispersion and the timing of working capital needs permit us to predict our general level of cash requirements, although tobacco crop size, prices paid to farmers, shipment and delivery timing, and currency fluctuations affect requirements each year. Peak working capital requirements are generally reached during the first and second fiscal quarters. Each tobacco production region follows a cycle of buying, processing, and shipping tobacco, and in many regions we also provide agricultural materials to tobacco farmers during the growing season. The timing of the elements of each cycle is influenced by such factors as local weather conditions and individual customer shipping requirements, which may change the level or the duration of tobacco crop financing. In contrast to our tobacco operations, working capital requirements for our ingredients operations tend to be lower and less seasonal. Despite a predominance of short-term needs for working capital, we maintain a portion of our total debt as long-term to reduce liquidity risk. We also periodically may have large cash balances that we utilize to meet our working capital requirements.

We believe that our financial resources are adequate to support our capital needs for at least the next twelve months. Our seasonal borrowing requirements primarily relate to purchasing tobacco crops in South America and Africa and can increase from March to September by more than \$300 million. The funding required can vary significantly depending upon such factors as crop sizes, the price of leaf, the relative strength of the U.S. dollar, and the timing of shipments and customer payments. We deal with this uncertainty by maintaining substantial credit lines and cash balances. In addition to our operating requirements for working capital, we expect to spend around \$35 to \$45 million during fiscal year 2022 for capital expenditures to maintain our facilities and invest in opportunities to grow and improve our businesses. We also expect to provide about \$7 million in funding to our pension plans. We have no long-term debt maturing until fiscal year 2024.

To date, COVID-19 has not had a significant impact on our operations, and we currently anticipate our current cash balances, cash flows from operations, and our available sources of liquidity will be sufficient to meet our cash requirements.

### Cash Flow

Our operations generated about \$220.4 million in operating cash flows in fiscal year 2021. That amount was about \$209.5 million higher than the \$10.9 million we generated in fiscal year 2020, largely due to lower working capital requirements in fiscal year 2021. During the fiscal year ended March 31, 2021, we spent \$66.2 million on capital projects and \$164.0 million on the acquisition of a new business, and we returned \$75.2 million to shareholders in the form of dividends. At March 31, 2021, cash balances totaled \$197.2 million.

### Working Capital

Working capital at March 31, 2021, was about \$1.3 billion, up about \$50.0 million from last fiscal year's level, largely on the addition of assets from our acquisition of Silva, offset in part by lower tobacco inventories. Tobacco inventories of \$640.7 million at March 31, 2021, were down \$66.6 million compared to inventory levels at the end of the prior fiscal year, mainly due to higher carryover crop sales of leaf tobacco, lower green leaf tobacco prices, and lower purchase volumes of African tobacco crops in part due to weather-reduced crop sizes. Other inventories were up \$46.7 million at March 31, 2021, from prior year levels largely on our acquisition of Silva in October 2020. We generally do not purchase material quantities of leaf tobacco on a speculative basis. However, when we contract directly with tobacco farmers, we are obligated to buy all stalk positions, which may contain less marketable leaf styles. Our uncommitted tobacco inventories decreased by approximately \$35.8 million to \$139.2 million, or about 22% of tobacco inventory, at March 31, 2021, which was slightly above our target range. Uncommitted inventories at March 31, 2020, were \$175.0 million, which represented 25% of tobacco inventory. The level of these uncommitted inventories is influenced by timing of farmer deliveries of new crops, as well as the receipt of customer orders. Cash and cash equivalents were up \$89.8 million at the end of fiscal year 2021, compared to balance at the end of fiscal year 2020, on lower working capital requirements due to the lower tobacco inventory levels and timing of customer payments.



## Capital Allocation

Our capital allocation strategy focuses on four strategic priorities:

- Strengthening and investing for growth in our leaf tobacco business;
- Increasing our strong dividend;
- Exploring growth opportunities in non-tobacco industries and markets that utilize our assets and capabilities; and
- Returning excess capital through share repurchases.

Our mission is to remain the leading global leaf tobacco supplier. We will continue to make disciplined investments within our leaf business and taking advantage of growth opportunities in tobacco as well as in non-tobacco industries and markets that utilize our assets and capabilities. Through these actions, we believe that will be able to deliver enhanced shareholder value through earnings growth and the generation of free cash flow despite operating in a mature industry.

In line with our capital allocation strategy, we acquired Silva for approximately \$164 million on October 1, 2020. The acquisition expanded our plant-based ingredients platform, and we expect it to enable us to offer customers a single source for vegetable and fruit ingredients. As we look ahead, we will continually evaluate opportunities to return capital to shareholders. At the same time, we remain committed to maintaining our investment grade credit rating and extending our 51-year history of dividend increases.

### *Share Activity*

Our Board of Directors approved our current share repurchase program in November 2020. The program authorizes the purchase of up to \$100 million of our common stock through November 15, 2022. Under the current authorization, we may purchase shares from time to time on the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. Repurchases of shares under the repurchase program may vary based on management discretion, as well as changes in cash flow generation and availability. During fiscal year 2021, we did not purchase any shares of common stock. At March 31, 2021, our available authorization under our current share repurchase program was \$100 million, and approximately 24.5 million common shares were outstanding.

### *Capital Spending*

Our capital expenditures are generally limited to those that add value, replace or maintain equipment, increase efficiency, or position us for future growth. In deciding where to invest capital resources, we look for opportunities where we believe we can earn an adequate return, leverage our assets and expertise, and enhance our farmer base. During fiscal years 2021 and 2020, we invested \$66.2 million and \$35.2 million, respectively, in our property, plant, and equipment. In the fourth quarter of fiscal year 2021, we purchased the operating and administrative facilities of our FruitSmart business, which we had previously leased, for approximately \$16.5 million. Depreciation expense was approximately \$38.3 million and \$37.5 million, respectively, in fiscal years 2021 and 2020. Generally, our capital spending on maintenance projects is at a level below depreciation expense in order to maintain strong cash flow. In addition, from time to time, we undertake projects that require capital expenditures when we identify opportunities to improve efficiencies, add value for our customers, and position ourselves for future growth. We currently plan to spend approximately \$35 to \$45 million in fiscal year 2022 on capital projects for maintenance of our facilities and other investments to grow and improve our businesses. Typically, our capital expenditures for maintenance projects are less than \$30 million per fiscal year.

## Outstanding Debt and Other Financing Arrangements

We financed the Silva acquisition using cash-on-hand and borrowings under our committed revolving credit facility. On December 17, 2020, we amended our bank credit agreement, originally dated as of December 20, 2018, to increase the amount of the amount of the term A-1 loans which mature in December 2023 by an additional \$75 million and the amount of term A-2 loans which mature in December 2025 by an additional \$75 million. We also amended the definition of Consolidated EBITDA under the agreement to (i) exclude the effects of any non-cash purchase accounting adjustments, (ii) make pro forma adjustments for material acquisitions and material dispositions and (iii) permit adjustments for certain transaction fees and expenses related to the amendment and any material acquisition or disposition. All other material terms and conditions of the bank credit agreement remain in full force and effect. We used the proceeds from the term loans to repay borrowings under the committed revolving credit facility.

We consider the sum of notes payable and overdrafts, long-term debt (including any current portion), and customer advances and deposits, less cash, cash equivalents, and short-term investments on our balance sheet to be our net debt. We also

consider our net debt plus shareholders' equity to be our net capitalization. Net debt increased by \$81.4 million to \$431.0 million during the fiscal year ended March 31, 2021. The increase primarily reflects the Silva acquisition offset in part by higher cash balances. Net debt as a percentage of net capitalization was approximately 25% at March 31, 2021, up from 22% at March 31, 2020.

As of March 31, 2021, we had \$430 million available under a committed revolving credit facility that will mature in December 2023, and we, together with our consolidated affiliates, had approximately \$274 million in uncommitted lines of credit, of which approximately \$172 million were unused and available to support seasonal working capital needs. The financial covenants under our committed revolving credit facility require us to maintain certain levels of tangible net worth and observe restrictions on debt levels. As of March 31, 2021, we were in compliance with all covenants of our debt agreements. We also have an active, undenominated universal shelf registration filed with the SEC in November 2020 that provides for future issuance of additional debt or equity securities. We have no long-term debt maturing until fiscal year 2024.

### **Derivatives**

From time to time, we use interest rate swap agreements to manage our exposure to changes in interest rates. Currently, we have interest rate swap agreements that convert the variable benchmark LIBOR rates on \$370 million of our two outstanding term loans entered to fixed rates. With the swap agreements in place, the effective interest rates on \$150 million of the five-year term loan and \$220 million of the seven-year term loan were 3.94% and 4.26%, respectively, as of March 31, 2021. These agreements were entered into to eliminate the variability of cash flows in the interest payments on our variable rate five- and seven-year term loans and are accounted for as cash flow hedges. Under the swap agreements, we receive variable rate interest and pay fixed rate interest. At March 31, 2021, the fair value of our open interest rate hedge swaps was a net liability of approximately \$26 million.

We also enter forward contracts from time to time to hedge certain foreign currency exposures, primarily related to forecast purchases of tobacco and related processing costs in Brazil and Africa, as well as our net monetary asset exposure in local currency there. We generally account for our hedges of forecast tobacco purchases as cash flow hedges. At March 31, 2021, the fair value of those open contracts was a net asset of approximately \$0.1 million. We also had other forward contracts outstanding that were not designated as hedges, and the fair value of those contracts was a net liability of approximately \$0.4 million at March 31, 2021. For additional information, see Note 11 to the consolidated financial statements in Item 8.

### **Pension Funding**

The funds supporting our ERISA-regulated U.S. defined benefit pension plan during fiscal year 2021 were approximately \$261 million. The accumulated benefit obligation ("ABO") and the projected benefit obligation ("PBO") were both approximately \$244 million and \$250 million, respectively as of March 31, 2021. The ABO and PBO are calculated on the basis of certain assumptions that are outlined in Note 13 to the consolidated financial statements in Item 8. We expect to make contributions of about \$7 million to our pension plans during the next year. It is our policy to regularly monitor the performance of the funds and to review the adequacy of our funding and plan contributions.

### **Off-Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Contractual Obligations

Our contractual obligations as of March 31, 2021, were as follows:

(in thousands of dollars)	Total	2022	2023-2024	2025-2026	After 2026
Notes payable and long-term debt <sup>(1)</sup>	\$ 705,905	\$ 126,015	\$ 263,775	\$ 316,115	\$ —
Operating lease obligations	34,893	11,074	12,130	6,389	5,300
Inventory purchase obligations:					
Tobacco	564,987	441,544	123,443	—	—
Agricultural materials	36,846	36,846	—	—	—
Other purchase obligations	65,678	50,843	8,035	6,800	—
<b>Total</b>	<b>\$ 1,408,309</b>	<b>\$ 666,322</b>	<b>\$ 407,383</b>	<b>\$ 329,304</b>	<b>\$ 5,300</b>

<sup>(1)</sup> Includes interest payments. Interest payments on \$251.0 million of variable rate debt were estimated based on rates as of March 31, 2021. We have entered into interest rate swaps that effectively convert the interest payments on \$370.0 million of the outstanding balance of our two bank term loans from variable to fixed. The fixed rate has been used to determine the contractual interest payments for all periods.

In addition to principal and interest payments on notes payable and long-term debt, our contractual obligations include operating lease payments, inventory purchase commitments, and capital expenditure commitments. Operating lease obligations represent minimum payments due under leases for various production, storage, distribution, and other facilities, as well as vehicles and equipment. Tobacco inventory purchase obligations primarily represent contracts to purchase tobacco from farmers. The amounts shown above are estimates since actual quantities purchased will depend on crop yield, and prices will depend on the quality of the tobacco delivered. We have partially funded our tobacco purchases in some origins with short-term advances to farmers and other suppliers, which totaled approximately \$122 million, net of allowances, at March 31, 2021.

## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial statements in accordance with GAAP, we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect our supplemental information disclosures, including information about contingencies, risks, and financial condition. We believe, given current facts and circumstances, that our estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. However, changes in the assumptions used could result in a material adjustment to the financial statements. Our critical accounting estimates and assumptions are in the following areas:

### **Inventories**

Inventories of tobacco are valued at the lower of cost or net realizable value with cost determined under the specific cost method. Raw materials are clearly identified at the time of purchase. We track the costs associated with raw materials in the final product lots, and maintain this identification through the time of sale. We also capitalize direct and indirect costs related to processing raw materials. This method of cost accounting is referred to as the specific cost or specific identification method. We write down inventory for changes in net realizable value based upon assumptions related to future demand and market conditions if the indicated value is below cost. Future demand assumptions can be impacted by changes in customer sales, changes in customers' inventory positions and policies, competitors' pricing policies and inventory positions, and varying crop sizes and qualities. Market conditions that differ significantly from those assumed by management could result in additional write-downs. We experience inventory write-downs routinely. Inventory write-downs in fiscal years 2021, 2020, and 2019 were \$13.4 million, \$10.3 million, and \$4.0 million, respectively.

### **Advances to Tobacco Suppliers**

In many sourcing origins, we provide tobacco growers with agronomy services and seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature and are customarily repaid upon delivery of tobacco to us. In several origins, we have also made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to repay maturing advances. In those cases, we may extend repayment of the advances into the following crop year. We will incur losses whenever we are unable to recover the full amount of the loans and advances. At each reporting period, we must make estimates and assumptions in determining the valuation allowance for advances to farmers. At March 31, 2021, the gross balance of advances to tobacco suppliers totaled approximately \$144 million, and the related valuation allowance totaled approximately \$18 million.

### **Recoverable Value-Added Tax Credits**

In many foreign countries, we pay significant amounts of value-added tax ("VAT") on purchases of unprocessed and processed tobacco, crop inputs, packing materials, and various other goods and services. In some countries, VAT is a national tax, and in other countries it is assessed at the state level. Items subject to VAT vary from jurisdiction to jurisdiction, as do the rates at which the tax is assessed. When we sell tobacco to customers in the country of origin, we generally collect VAT on those sales. We are normally permitted to offset our VAT payments against those collections and remit only the incremental VAT collections to the tax authorities. When tobacco is sold for export, VAT is normally not assessed. In countries where our tobacco sales are predominately for export markets, we often do not generate enough VAT collections on downstream sales to fully offset our VAT payments. In those situations, we can accumulate unused VAT credits. Some jurisdictions have procedures that allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process often takes an extended period of time and it is not uncommon for refund applications to be challenged or rejected in part on technical grounds. Other jurisdictions may permit companies to sell or transfer unused VAT credits to third parties in private transactions, although approval for such transactions must normally be obtained from the tax authorities, limits on the amounts that can be transferred may be imposed, and the proceeds realized may be heavily discounted from the face value of the credits. Due to these factors, in some countries we can accumulate significant balances of VAT credits over time. We review these balances on a regular basis, and we record valuation allowances on the credits to reflect amounts that we do not expect to recover, as well as discounts anticipated on credits we expect to sell or transfer. In determining the appropriate valuation allowance to record in a given jurisdiction, we must make various estimates and assumptions about factors affecting the ultimate recovery of the VAT credits. At March 31, 2021, the gross balance of recoverable tax credits (primarily VAT) totaled approximately \$49 million, and the related valuation allowance totaled approximately \$19 million.

### **Business Combinations**

From time to time, we may enter into business combinations. In accordance with ASC 805, "*Business Combinations*", we generally recognize the identifiable assets acquired and the liabilities assumed at their fair values as of the date of acquisition. We measure goodwill as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. The acquisition method of accounting requires us to make significant estimates and assumptions regarding the fair values of the elements of a business combination as of the date of acquisition, including the fair values of identifiable intangible assets, deferred tax asset valuation allowances,

liabilities including those related to debt, pensions and other postretirement plans, uncertain tax positions, contingent consideration and contingencies. This method also requires us to refine these estimates over a measurement period not to exceed one year to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. If we are required to adjust provisional amounts that we have recorded for the fair values of assets and liabilities in connection with acquisitions, these adjustments could have a material impact on our financial condition and results of operations.

Significant estimates and assumptions in estimating the fair value of developed technology, customer relationships, and other identifiable intangible assets include future cash flows that we expect to generate from the acquired assets. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could record impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be increased or decreased, or the acquired asset could be impaired.

## **Goodwill**

We review the carrying value of goodwill for potential impairment on an annual basis and at any time that events or business conditions indicate that it may be impaired. As permitted under Accounting Standards Codification Topic 350 (“ASC 350”), at March 31, 2021 and 2020, we elected to base our initial assessment of potential impairment on qualitative factors. Those factors did not indicate any impairment of our recorded goodwill in fiscal year 2021. In fiscal years prior to basing our initial assessment on qualitative factors, we followed the quantitative approach in ASC 350 in assessing the fair value of our goodwill, which involved the use of discounted cash flow models (Level 3 of the fair value hierarchy under GAAP). Under our current qualitative assessment, we would also use those discounted cash flow models to measure any expected impairment indicated by the assessment. The calculations in these models are not based on observable market data from independent sources and therefore require significant management judgment with respect to operating earnings growth rates and the selection of an appropriate discount rate. Significant adverse changes in our operations or our estimates of future cash flows for a reporting unit with recorded goodwill, such as those caused by unforeseen events or changes in market conditions, could result in an impairment charge. A majority of our consolidated goodwill balance relates to our reporting unit in Brazil and the recent acquisitions of FruitSmart (January 1, 2020) and Silva (October 1, 2020).

## **Fair Value Measurements**

We hold various financial assets and financial liabilities that are required to be measured and reported at fair value in our financial statements, including money market funds, trading securities associated with deferred compensation plans, interest rate swaps, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers. We follow the relevant accounting guidance in determining the fair values of these financial assets and liabilities. Money market funds are valued based on net asset value (“NAV”), which is used as a practical expedient to measure the fair value of those funds (not classified within the fair value hierarchy). Quoted market prices (Level 1 of the fair value hierarchy) are used in most cases to determine the fair values of trading securities. Interest rate swaps and forward foreign currency exchange contracts are valued based on dealer quotes using discounted cash flow models matched to the contractual terms of each instrument (Level 2 of the fair value hierarchy). We incorporate credit risk in determining the fair values of our financial assets and financial liabilities, but that risk did not materially affect the fair values of any of those assets or liabilities at March 31, 2021. We estimate the fair value of acquisition-related contingent consideration obligations by applying an income approach model that utilizes probability-weighted discounted cash flows. Each period we evaluate the fair value of the acquisition-related contingent consideration obligations. Significant judgment is applied to this model and therefore acquisition-related contingent consideration obligation is classified within Level 3 of the fair value hierarchy. In fiscal year 2021, the evaluation of the contingent consideration for the FruitSmart acquisition resulted in the reduction of \$4.2 million of contingent consideration of the original \$6.7 million liability recorded in fiscal year 2020.

## **Income Taxes**

Our consolidated effective income tax rate is based on our expected taxable income, tax laws and statutory tax rates, prevailing foreign currency exchange rates, and tax planning opportunities in the various jurisdictions in which we operate. Significant judgment is required in determining the effective tax rate and evaluating our tax position. We are subject to the tax laws of many jurisdictions, and could be subject to a tax audit in each of these jurisdictions, which could result in adjustments to tax expense in future periods. In the event that there is a significant, unusual, or one-time item recognized in our results, the tax attributed to that discrete item would be recorded at the same time as the item.

Our consolidated income tax expense and effective tax rate are heavily dependent on the tax rates of the individual countries in which we operate, the mix of our pretax earnings from those countries, and the prevailing rates of exchange of their local currencies with the U.S. dollar. The mix of pretax earnings and local currency exchange rates in particular can change significantly between annual and quarterly reporting periods based on crop sizes, market conditions, and economic factors. Our effective tax rate can be volatile from year-to-year and from quarter-to-quarter as result of these factors.



We have no undistributed earnings of consolidated foreign subsidiaries that are classified as permanently or indefinitely reinvested. We assume that all undistributed earnings of our foreign subsidiaries will be repatriated back to their parent entities in the U.S. where the funds are best placed to meet our cash flow requirements. In addition, we strive to mitigate economic, political, and currency risk by following a disciplined annual approach to the distribution of excess capital back to the U.S. Based on these assumptions, in our income tax expense for each reporting period we fully provide for all applicable foreign country withholding taxes that are expected to be due on these distributions.

Our accounting for uncertain tax positions requires that we review all significant tax positions taken, or expected to be taken, in income tax returns for all jurisdictions in which we operate. In this review, we must assume that all tax positions will ultimately be audited, and either accepted or rejected based on the applicable tax regulations by the tax authorities for those jurisdictions. We must recognize in our financial statements only the tax benefits associated with tax positions that are “more likely than not” to be accepted upon audit, at the greatest amount that is considered “more likely than not” to be accepted. These determinations require significant management judgment, and changes in any given quarterly or annual reporting period could affect our consolidated income tax rate.

Tax regulations require items to be included in taxable income in the tax return at different times, and in some cases in different amounts, than the items are reflected in the financial statements. As a result, our effective tax rate reflected in the financial statements is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not tax deductible, while others are related to timing issues, such as differences in depreciation methods. Timing differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or income taxes related to expenses that have not yet been recognized in the financial statements, but have been deducted in our tax return. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future tax returns for which we have already recorded the tax benefit in our financial statements. We record valuation allowances for deferred tax assets when the amount of estimated future taxable income is not likely to support the use of the deduction or credit. Determining the amount of such valuation allowances requires significant management judgment, including estimates of future taxable income in multiple tax jurisdictions where we operate. Based on our periodic earnings forecasts, we project the upcoming year’s taxable income to help us evaluate our ability to realize deferred tax assets.

For additional disclosures on income taxes, see Notes 1 and 6 to the consolidated financial statements in Item 8.

#### **Pension and Other Postretirement Benefit Plans**

The measurement of our pension and other postretirement benefit obligations and costs at the end of each fiscal year requires that we make various assumptions that are used by our outside actuaries in estimating the present value of projected future benefit payments to all plan participants. Those assumptions take into consideration the likelihood of potential future events such as salary increases and demographic experience. The assumptions we use may have an effect on the amount and timing of future contributions to our plans. The plan trustee conducts an independent valuation of the fair value of pension plan assets. The significant assumptions used in the calculation of our pension and other postretirement benefit obligations are:

- Discount rate – The discount rate is based on investment yields on a hypothetical portfolio of actual long-term corporate bonds rated AA that align with the cash flows for our benefit obligations.
- Salary scale – The salary scale assumption is based on our long-term actual experience for salary increases, the near-term outlook, and expected inflation.
- Expected long-term return on plan assets – The expected long-term return on plan assets reflects asset allocations and investment strategy adopted by the Finance and Pension Investment Committee of the Board of Directors.
- Retirement and mortality rates – Retirement rates are based on actual plan experience along with our near-term outlook. Early retirement assumptions are based on our actual experience. Mortality rates are based on standard industry group annuity mortality tables which are updated to reflect projected improvements in life expectancy.
- Healthcare cost trend rates – For postretirement medical plan obligations and costs, we make assumptions on future inflationary increases in medical costs. These assumptions are based on our actual experience, along with third-party forecasts of long-term medical cost trends.

From one fiscal year to the next, the rates we use for each of the above assumptions may change based on market developments and other factors. The discount rate reflects prevailing market interest rates at the end of the fiscal year when the benefit obligations are actuarially measured and will increase or decrease based on market patterns. The expected long-term return on plan assets may change based on changes in investment strategy for plan assets or changes in indicated longer-term yields on specific classes of plan assets. In addition to the changes in actuarial assumptions from year to year, actual plan experience affecting our net benefit obligations, such as actual returns on plan assets and actual mortality experience, will differ from the assumptions used to measure the obligations. The effects of these changes and differences increase or decrease the obligation we record for our pension and other postretirement benefit plans, and they also create gains and losses that are accumulated and amortized over future periods, thus affecting the expense we recognize for these plans over those periods.

Changes in the discount rate from year to year generally have the largest impact on our projected benefit obligation and annual expense, and the effects may be significant, particularly over successive years where the discount rate moves in the same direction.

As of March 31, 2021, the effect of the indicated increase or decrease in the selected pension and other postretirement benefit valuation assumptions is shown below. The effect assumes no change in benefit levels.

<u>(in thousands of dollars)</u>	<b>Effect on 2021 Projected Benefit Obligation Increase (Decrease)</b>	<b>Effect on 2022 Annual Expense Increase (Decrease)</b>
<b><u>Changes in Assumptions for Pension Benefits</u></b>		
Discount Rate:		
1% increase .....	\$ (32,905)	\$ (2,624)
1% decrease .....	40,554	2,885
Expected Long-Term Return on Plan Assets:		
1% increase .....	—	(2,459)
1% decrease .....	—	2,458
<b><u>Changes in Assumptions for Other Postretirement Benefits</u></b>		
Discount Rate:		
1% increase .....	(2,462)	(264)
1% decrease .....	2,923	177
Healthcare Cost Trend Rate:		
1% increase .....	190	62
1% decrease .....	(175)	(58)

A 1% increase or decrease in the salary scale assumption would not have a material effect on the projected benefit obligation or on annual expense for the Company's pension benefits. See Note 13 to the consolidated financial statements in Item 8 for additional information on pension and other postretirement benefit plans.

### **Other Estimates and Assumptions**

Other management estimates and assumptions are routinely required in preparing our financial statements, including the determination of valuation allowances on accounts receivable and the fair value of long-lived assets. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on management's best judgment.

## OTHER INFORMATION REGARDING TRENDS AND MANAGEMENT'S ACTIONS

Our financial performance depends on our ability to obtain an appropriate price for our products and services, to secure the product volumes and quality desired by our customers, and to maintain efficient, competitive operations. As the leading global leaf tobacco supplier, we continually monitor for issues and opportunities that may impact the supply of and demand for leaf tobacco, the volumes of leaf tobacco that we handle, and the services we provide. We have also been building a plant-based ingredients platform and monitor issues and opportunities that may impact these businesses as well.

### **Tobacco Operations Trends**

We believe that a key factor to perform successfully in the tobacco industry is our ability to provide customers with the quality of leaf and the level of service they desire on a global basis at competitive prices, while maintaining stability of supply. We add significant value to the leaf tobacco supply chain, providing expertise in dealing with large numbers of farmers, efficiently selling various qualities of leaf produced in each crop to a broad global customer base, and delivering products and services produced in a sustainable manner that meet stringent quality and regulatory specifications. We also make the tobacco markets more efficient and provide crop development guidance at the farm level. As part of our commitment to our customers, we adapt our business model to meet their evolving needs and monitor new product developments in the tobacco industry to identify areas where we can provide additional value to them.

#### *Mature Leaf Tobacco Markets*

Leaf tobacco is sourced directly by product manufacturers, by global leaf suppliers such as ourselves, and by other smaller, mostly regional or local, leaf suppliers. We estimate that, of the flue-cured and burley tobacco grown outside of China in countries that are key export markets for tobacco, on average a little over a third is purchased directly by major manufacturers. Global leaf suppliers also usually purchase a little over a third of the tobacco, and the remainder is sourced by the smaller regional or local suppliers. In some markets the tobacco purchased directly by manufacturers is processed by the global leaf suppliers. Although we operate in a mature industry, where demand for the end products outside of China has been declining at a compound annual rate of about 1% over the last three years, our mission is to remain the leading global leaf tobacco supplier. In recent years, we have been and believe that we will continue to be able to grow parts of our business, and maintain performance despite declines in demand for leaf tobacco from product manufacturers. We have done this by continuing to increase our delivery of services, driving supply chain efficiencies, enhancing the range of services we provide to certain customers, including direct buying, agronomic support, and specialized processing services, and improving our market share. We intend to continue to work to expand our business while at the same time maintaining an appropriate return for the services we provide and believe that there are several longer term trends in the industry, such as a focus on sustainability, that could provide additional opportunities for us both to offer additional services to our customers and to increase our market share.

We continually explore options to capitalize on the strengths of our core competencies and seek growth opportunities related to leaf tobacco and our operations around the world. For example, we have expanded our leaf purchasing, processing, and grower support services in multiple origins in response to customer demand. We have increased our product offerings to meet demand for shisha (water pipe) style leaf tobacco for customers in the Middle East and North Africa (MENA) region and natural wrappers in the United States and Europe. As we look at non-tobacco investments and explore new growth opportunities within tobacco, Universal is dedicated to remaining the leading global leaf tobacco supplier and building on our strong history.

#### *Focus on Cost Management*

Manufacturers naturally seek to mitigate raw materials cost increases, and they are placing increased emphasis on cost containment as they address declining demand. While this is not a new trend, it continues to offer opportunities to us as we bring supply chain efficiencies to the leaf markets. We believe that global leaf suppliers add efficiencies to the markets through economies of scale, as well as through the vital role played in finding buyers for all styles and qualities of leaf tobacco, which achieves overall cost reductions. To understand our business, it is important to note that tobacco is not a commodity product. Flavor and smoking characteristics as well as chemistries of tobacco vary based on the type of tobacco, the region where the tobacco is grown, and the position of the leaf on the stalk of the plant. Many different styles and grades of tobacco may be produced in a single tobacco crop. A particular manufacturer may only want and have use for certain leaves of a plant. The leaf tobacco supplier plays a vital role in the industry by finding buyers for all of the leaf grades and styles of tobacco produced in a farmer's crop. This role helps to improve leaf utilization.

In addition to bringing supply chain efficiencies to the leaf tobacco markets, we bring operational efficiencies to the industry, which in turn help reduce costs. These efficiencies include economical utilization of processing capacity, an established and scalable global network of agronomists and technicians helping to maintain a stable, productive, and sustainable farmer base,

as well as agronomic and production improvements to optimize leaf yields and qualities. In addition, we are able to offer manufacturers a complete range of services from the field to the delivery of the packed product that benefit from our efficiencies. These services include such things as buying station optimization, processing and blending to specific customer specifications or needs, storage of green or packed leaf tobacco, and logistical services. In recent years, there has been an increase in the level of direct purchasing, processing, and other supply chain services that we provide our customers, notably in the United States, Mexico, Brazil, Poland, Guatemala, the Dominican Republic, and the Philippines. We believe this increase acknowledges the efficiencies and services that we bring to the entire supply chain.

We have also seen some reductions in sourcing from lower-volume tobacco growing origins by both global leaf suppliers and major manufacturers. Flue-cured tobacco is produced in over 70 countries around the world, and burley tobacco is grown in over 45 countries. However, over 80% of both the flue-cured tobacco grown outside of China and the worldwide burley tobacco production is sourced from the top ten growing areas for each type of tobacco. We believe that these moves to reduce sourcing areas and concentrate on major tobacco export markets are another way for the industry to increase efficiency and to reduce costs. We have contributed to cost reduction and elimination of excess capacity in the supply chain through the closure or realignment of programs in Argentina, Canada, Germany, Italy, Hungary, Malawi, Nicaragua, Switzerland, Tanzania, and Zambia. We maintain a strong presence in all of the major tobacco sourcing areas and believe that any growth in these areas would favor global leaf suppliers such as ourselves. In the future, we expect that increased regulations requiring stringent monitoring and testing of leaf chemistry and compliant sourcing documentation will place greater emphasis on major sourcing areas.

#### *Importance of Compliant Leaf*

As we have said for many years, the production of compliant leaf for the tobacco industry continues to grow in importance. To be considered compliant, leaf tobacco must be grown in a traceable, sustainable manner utilizing GAP. We have long invested significant resources in the programs and infrastructure needed to work with growers to produce compliant leaf and continue to enhance our ability to monitor and demonstrate this compliance for our customers. Our GAP focus on implementing international principles of sustainability by encouraging and training our farmers to employ sound field production and labor management practices that promote farmer profitability and minimal environmental impact. To assist farmers, Universal provides comprehensive training, technical support in the field, and crop analytics through ongoing research and development. Our commitment to compliance is reinforced through MobiLeaf™, our proprietary mobile device platform that captures and shares data in real-time, embedding sustainability throughout our supply chain and providing monitoring of GAP efforts, compliance with labor standards, and opportunities to enhance efficiencies. We believe that compliant leaf will continue to grow in importance to our customers and, as a result, will favor global suppliers who are able to deliver this product.

#### *Growth of Alternative Tobacco Products*

Most of the major tobacco product manufacturers have been developing next generation and modified risk products. These include electronic nicotine delivery systems (“ENDS”), oral tobacco and nicotine products, and heated tobacco products. ENDS use liquid nicotine, which is predominately derived from leaf tobacco, and heated tobacco products use leaf tobacco. Oral tobacco and nicotine products may use liquid nicotine or leaf tobacco. At this time, it is unclear how these new products will affect demand for leaf tobacco. However, as our customers have been developing these products, we have been working with them to make sure we are able to meet their needs for both their traditional and new products. This is consistent with our commitment to efficiently and effectively adapt our business model to meet our customers’ evolving needs. Specifically, we have expertise in tobacco seed development, crop production methods, crop sourcing, processing, and manufacturing of reconstituted sheet tobacco, which is beneficial to our customers as they continue to develop alternative tobacco products. We also are able to provide high quality, traceable and sustainable liquid nicotine through our subsidiary, AmeriNic. We continue to monitor industry developments regarding next generation products, including consumer acceptance and regulation, and will adapt accordingly.

#### *Leaf Tobacco Supply*

Flue-cured tobacco crops grown outside of China declined in fiscal year 2021 by about 13% to 1.7 billion kilos compared to fiscal year 2020. Global burley tobacco production decreased by about 16% to about 457 million kilos in fiscal year 2021, largely due to smaller crops in Africa and Brazil. Flue-cured tobacco crops grown outside of China are projected to increase by about 5% to 1.8 billion kilos in fiscal year 2022. Burley volumes are also forecast to decrease further to about 431 million kilos in fiscal year 2022. We estimate that as of March 31, 2021, industry uncommitted flue-cured and burley inventories, excluding China, totaled about 94 million kilos, a decrease of about 30% from March 31, 2020 levels. At this time, we believe that flue-cured tobacco supply is in line with anticipated demand and burley tobacco supply is in a slight undersupply position.

We also forecast that oriental and dark air-cured tobacco production will both decrease by about 5% and 6%, respectively, in fiscal year 2022. Over the long term, we believe that global tobacco production will continue to decline slightly in line with slightly declining total demand. South America, Asia, Africa, and North America will remain key sourcing regions for flue-cured and burley tobaccos.

China is a significant cigarette market. However, most of the cigarettes consumed in China and the leaf tobacco used in those cigarettes are produced domestically. Therefore, we normally view the Chinese market independently when evaluating worldwide leaf tobacco supply and demand. Domestic leaf tobacco inventories have built up in China over the last several years as China's domestic leaf production has exceeded their domestic needs for the local cigarette market. China is continuing to demonstrate efforts to re-align their domestic leaf production and inventories to balance their needs, and inventories have started to come down. These efforts could influence global supply/demand in the short term.

#### *Leaf Tobacco Demand*

Industry data shows that over the past three years, total world consumption of cigarettes fell at a compound annual rate of about 1%. We believe that growth in world consumption of cigarettes peaked several years ago and is declining. As a result, we expect that near term global demand for leaf tobacco will continue to slowly decline in line with declining global cigarette consumption.

Our sales consist primarily of flue-cured and burley tobaccos. Those types of tobacco, along with oriental tobaccos, are used in American-blend cigarettes which are primarily smoked in Western Europe and the United States. English-blend cigarettes which use flue-cured tobacco are mainly smoked in the United Kingdom and Asia and other emerging markets. Industry data shows that consumption of American-blend cigarettes has declined at a compound annual rate of about 1% for the three years ended in 2020. If demand for American-blend cigarettes declines at a higher rate than reductions in demand for English-blend cigarettes, there may be less demand for burley and oriental tobaccos and more demand for flue-cured tobacco. However, demand is affected by many factors, including regulation, product taxation, illicit trade, alternative tobacco products, and Chinese imports. To the extent that domestic leaf production and inventory durations in China do not meet requirements for Chinese cigarette blends, that tobacco could be sourced from other origins where we have major market positions. On a year-to-year basis, we are also susceptible to fluctuations in leaf supply due to crop sizes and leaf demand as manufacturers adjust inventories or respond to changes in cigarette markets. We currently believe that the supply of flue-cured tobaccos is in line with anticipated demand, and the supply of burley tobaccos is in a slight undersupply. However, inventories held by our customers may affect their near-term demand for leaf tobacco. We also sell oriental tobaccos, which are used in American-blend cigarettes, and dark tobaccos, which are used in cigars and other smokeless products. In recent years, we have seen increased demand for natural wrapper tobacco particularly for the European and U.S. machine-made cigar markets. While we expect demand for oriental tobaccos and dark tobaccos used in cigar filler to be generally in line with supply, we are continuing to see strong demand for wrapper tobacco.

#### *Pricing*

Factors that affect green tobacco prices include global supply and demand, market conditions, production costs, foreign exchange rates, and competition from other crops. We work with farmers to maintain tobacco production and to secure product at price levels that are attractive to both the farmers and our customers. Our objective is to secure compliant tobacco that is produced in a cost-effective manner under a sustainable business model with the desired quality for our customers. In some areas, tobacco competes with agricultural commodity products for farmer production. In the past, leaf shortages in specific markets or on a worldwide basis have also led to green tobacco price increases.

#### *Global Regulation of Tobacco Products*

##### *Public Acceptance of Increased Global Regulation on Tobacco Products*

Diminishing social acceptance of tobacco use and increasing pressure from anti-smoking groups have cultivated a political environment that accepts greater regulations on tobacco products, particularly in the United States and the European Union. While the impact of this cultural trend on our business is uncertain, the global acceptance of stringent regulations could reduce demand for tobacco products and have a material adverse effect on our results of operation.

##### *Strengthened Global Cooperation in the Regulation on Tobacco Products*

The World Health Organization's ("WHO") Framework Convention on Tobacco Control ("FCTC") was ratified in 2005 to become the world's first international public health treaty. Since its inception, the FCTC has continued to strengthen international cooperation and collaboration in tobacco control by advancing the implementation of the treaty's 38 articles and



increasing global participation. As the ninth Conference of the Parties approaches in November 2021, the FCTC is working diligently to consider amendments to the agreement and track progress in the treaty's implementation.

While we cannot predict the extent or speed at which the efforts of the FCTC will reduce tobacco consumption, a proliferation of national laws and regulations spurred by the recommendations of the FCTC would likely reduce demand for both tobacco products and leaf.

#### *United States FDA's Continued Enforcement of the Tobacco Control Act*

In 2009, the U.S. Congress passed the Family Smoking Prevention and Tobacco Control Act (the "Act"). This legislation authorizes the U.S. Food and Drug Administration ("FDA") to regulate the manufacturing and marketing of tobacco products. The Act additionally prohibited characterizing flavors in cigarettes, restricted youth access to tobacco products, banned advertising claims regarding certain tobacco products, and established the Center for Tobacco Products.

Over the past decade, the FDA has focused on establishing the scientific foundation and regulatory framework for regulating tobacco products in the United States. On May 10, 2016, the FDA released "deeming" regulations to extend FDA oversight over all tobacco products, including electronic nicotine delivery systems, cigars, hookah tobacco, pipe tobacco, dissolvables, and "novel and future products." The regulations require tobacco product manufacturers to register tobacco products that were on the market on February 15, 2007, and to seek FDA authorization to sell any products modified or introduced after such date. All submissions require manufacturers to list ingredients in their products. Per an order issued by the U.S. District Court for the District of Maryland in July 2019, the deadline for all pre-market tobacco application submissions moved to May 12, 2020. However, due to the global COVID-19 pandemic, the Court extended this deadline to September 9, 2020. The Agency was given one year to approve or deny the marketing applications under consideration.

Although less than 5% of cigarettes manufactured worldwide are consumed in the United States, the FDA is widely considered a global leader in the "science-based" regulation of tobacco products. The FDA operates in stark contrast to the World Health Organization's "emotion based" approach to nicotine use. The WHO is reluctant to accept one nicotine product as more/less risky than another, and their suggested solution is either rigorous regulation or outright prohibition. The continued implementation and enforcement of the Act in the United States is likely to influence the tobacco control measures considered by other countries and international bodies, including the WHO. It is impossible to predict the ultimate impact these developing regulations will have on our business, but any reduction in the demand for our customer's products will adversely impact the demand for leaf tobacco.

#### *Global Acceptance of the Continuum of Risk in the Regulation of Novel Tobacco Products*

As novel tobacco products, such as e-cigarettes and heat-not-burn devices, emerge in the global market, governments are tasked with developing the appropriate, science-based approach to regulation. In 2017, then Commissioner of the FDA, Scott Gottlieb, announced a new regulatory approach for the regulation of tobacco products that embraced the placement of each product somewhere along a "continuum of risk". This comprehensive plan on nicotine use sought to facilitate an adult tobacco consumer's switch from combustible cigarettes to less risky products found lower on the continuum. As part of this regulatory scheme, the FDA approved the first "heat-not-burn" and "very-low nicotine" premarket tobacco applications to permit the sale of these products within the United States. Furthermore, FDA approved their first modified risk tobacco products applications ("MRTPs") to permit certain products in the heat-not-burn and smokeless categories to make modified exposure or risk claims. Although the WHO FCTC does not include specific harm-reduction provisions in the language of the treaty, a growing number of countries have established tobacco control strategies incorporating a continuum of risk concept. In addition, the global tobacco product market is continuously diversifying to include a wide array of novel tobacco products to serve as alternatives to combustible cigarettes.

Regardless of the type, it is generally understood that most novel products on the market contain less leaf tobacco than combustible cigarettes. Therefore, the market-driven rise of novel products alongside a regulatory scheme designed to facilitate an adult tobacco consumer's switch from combustible cigarettes could affect global leaf demand. It is presently difficult to predict whether this will result in a decrease or an increase in requirements for leaf tobacco production in the long or short terms. Since they are marketed as replacements for combustible tobacco products, the question remains whether novel products will replace traditional cigarettes in the future, add to the market, or have a balancing effect.

#### *Increased Taxation*

A number of governments, particularly federal and local governments in the United States and the European Union, impose excise or similar taxes on tobacco products. Further legislation proposing new or increased taxes on tobacco products is likely to continue. In some cases, proposed legislation seeks to significantly increase existing taxes on tobacco products, or impose new taxes on products that have not been subject to tax (e.g. ENDS products and liquid nicotine). Increases in product taxation may reduce the affordability of, and demand for, tobacco products, which will affect requirements for leaf tobacco by tobacco product manufacturers.

## *Illicit Trade*

Illicit trade is another factor which influences demand for legally and sustainably produced leaf tobacco. The WHO estimates that one in every ten cigarettes consumed globally is illicit. Individual governments like the United States, European Union, and Brazil have initiated substantial steps in combating illicit trade. In 2012 the WHO Framework Convention on Tobacco Control adopted an illicit trade protocol which has been so far ratified by only one third of its 182 parties. We continue to support both governmental and industry efforts to eradicate illicit trade.

## **Ingredients Operations Trends**

Following our capital allocation strategy, we have made disciplined investments within our leaf business to take advantage of growth opportunities in tobacco as well as in plant-based ingredients businesses and markets that could utilize our assets and capabilities. Through these actions, we believe that we will be able to deliver enhanced shareholder value despite operating in the mature leaf tobacco industry.

We made significant strategic investments in our plant-based ingredients platform in fiscal years 2020 and 2021. We acquired FruitSmart in January 2020 and Silva in October 2020. Our ingredients businesses provide our business-to-business customers with a broad variety of plant-based ingredients for both human and pet consumption. A variety of value-added manufacturing processes are used in these businesses to convert raw materials into a wide spectrum of fruit and vegetable juices, concentrates, and dehydrated products. These businesses provide value-added agricultural processing, part of the agricultural value chain where we possess significant business expertise. We consider the agricultural value chain to consist of agricultural inputs, crop production, agricultural processing, manufacture and distribution, and retail sales. We are pleased with the ongoing integration of our plant-based ingredients platform, and we are ahead of our capital allocation strategy objectives.

One of the markets our plant-based ingredients business serve is the growing Global Health and Wellness Foods Market. According to industry estimates this market is projected to grow at an annual rate of 4%-6% over the next several years. In addition, with the COVID-19 pandemic, there is strong consumer demand for healthy foods. FruitSmart is seeing growing consumer interest in better-for-you premium ingredients, including custom blends, not-from-concentrate and dry products. It is also seeing strong growth in targeted end markets utilizing FruitSmart products, including ciders, purees and nutraceuticals. Silva is well positioned to take advantage of increasing demand for natural and clean-label products across the end markets it serves, including within the attractive and growing savory and pet food end markets.

## **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

### **Interest Rate Risk**

We generally use both fixed and floating interest rate debt to finance our operations. Changes in market interest rates expose us to changes in cash flows for floating rate instruments and to changes in fair value for fixed-rate instruments. We normally maintain a proportion of our debt in both variable and fixed interest rates to manage this exposure, and from time to time we may enter hedge agreements to swap the interest rates. In addition, our customers may pay market rates of interest for inventory purchased on order, which could mitigate a portion of the floating interest rate exposure. We also periodically have large cash balances and may receive deposits from customers, both of which we use to fund seasonal purchases of tobacco, reducing our financing needs. Excluding the portion of our bank term loans that have been converted to fixed-rate borrowings with interest rate swaps, debt carried at variable interest rates was approximately \$251 million at March 31, 2021. Although a hypothetical 1% change in short-term interest rates would result in a change in annual interest expense of approximately \$2.5 million, that amount would be at least partially mitigated by changes in charges to customers.

In addition, changes in interest rates affect the calculation of our pension plan liabilities. As rates decrease, the liability for the present value of amounts expected to be paid under the plans increases. Rate changes also affect expense. As of the March 31, 2021 measurement date, a 1% decrease in the discount rate would have increased the projected benefit obligation (“PBO”) for pensions by \$41 million and increased annual pension expense by \$3 million. Conversely, a 1% increase in the discount rate would have reduced the PBO by \$33 million and reduced annual pension expense by \$3 million.

### **Currency Risk**

The international leaf tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to leaf purchase and production costs, overhead, and income taxes in the source country. We also provide farmer advances that are directly related to leaf purchases and are denominated in the local currency. Any currency gains or losses on those advances are usually offset by increases or decreases in the cost of tobacco, which is priced in the local currency. However, the effect of the offset may not occur until a subsequent quarter or fiscal year. Most of our tobacco operations are accounted for using the U.S. dollar as the functional currency. Because there are no forward foreign exchange markets in many of our major countries of tobacco origin, we often manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale, which is usually the U.S. dollar, and by minimizing our net local currency monetary position in individual countries. We are vulnerable to currency remeasurement gains and losses to the extent that monetary assets and liabilities denominated in local currency do not offset each other. We recognized net remeasurement gains of \$8.5 million in fiscal year 2021, \$16.4 million of net remeasurement losses in fiscal year 2020, and \$1.8 million of net remeasurement losses in fiscal year 2019. We recognized net foreign currency transaction losses of \$1.4 million in fiscal year 2021, \$2.9 million in fiscal year 2020, and \$4.3 million in fiscal year 2019. In addition to foreign exchange gains and losses, we are exposed to changes in the cost of tobacco due to changes in the value of the local currency in relation to the U.S. dollar. We have entered forward currency exchange contracts to hedge against the effects of currency movements on purchases of tobacco to reduce the volatility of costs. In addition, we periodically enter into forward contracts to hedge balance sheet exposures. See Note 11 to the consolidated financial statements in Item 8 for additional information about our hedging activities.

In certain tobacco markets that are primarily domestic, we use the local currency as the functional currency. Examples of these markets are Poland and the Philippines. In other markets, such as Western Europe, where export sales are primarily in local currencies, we also use the local currency as the functional currency. In each case, reported earnings are affected by the translation of the local currency into the U.S. dollar.

### **Hedging Risk**

Hedging interest rate exposure using swaps and hedging foreign currency exchange rate exposure using forward contracts are specifically contemplated to manage risk in keeping with management's policies. We may use derivative instruments, such as swaps, forwards, options, or futures, which are based directly or indirectly upon interest rates and currencies to manage and reduce the risks inherent in interest rate and currency fluctuations. When we use foreign currency derivatives to mitigate our exposure to exchange rate fluctuations, we may choose not to designate them as hedges for accounting purposes, which may result in the effects of the derivatives being recognized in our earnings in periods different from the items that created the exposure.

We do not utilize derivatives for speculative purposes, and we do not enter into market risk-sensitive instruments for trading purposes. Derivatives are transaction-specific so that a specific debt instrument, forecast purchase, contract, or invoice determines the amount, maturity, and other specifics of the hedge. We routinely review counterparty risk as part of our derivative program.

**Item 8. Financial Statements and Supplementary Data**

**UNIVERSAL CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands of dollars, except share and per share data)	Fiscal Year Ended March 31,		
	2021	2020	2019
Sales and other operating revenues .....	\$ 1,983,357	\$ 1,909,979	\$ 2,227,153
Costs and expenses			
Cost of goods sold .....	1,597,354	1,553,167	1,820,562
Selling, general and administrative expenses .....	219,789	222,902	225,118
Other income .....	(4,173)	—	—
Restructuring and impairment costs .....	22,577	7,543	20,304
Operating income .....	147,810	126,367	161,169
Equity in pretax earnings of unconsolidated affiliates .....	2,985	4,211	5,299
Other non-operating income (expense) .....	(440)	986	832
Interest income .....	325	1,581	1,532
Interest expense .....	24,954	19,854	17,510
Income before income taxes .....	125,726	113,291	151,322
Income taxes .....	29,412	35,288	41,188
Net income .....	96,314	78,003	110,134
Less: net income attributable to noncontrolling interests in subsidiaries .....	(8,904)	(6,323)	(6,013)
Net income attributable to Universal Corporation .....	<u>\$ 87,410</u>	<u>\$ 71,680</u>	<u>\$ 104,121</u>
Earnings per share:			
Basic .....	<u>\$ 3.55</u>	<u>\$ 2.87</u>	<u>\$ 4.14</u>
Diluted .....	<u>\$ 3.53</u>	<u>\$ 2.86</u>	<u>\$ 4.11</u>
Weighted average common shares outstanding:			
Basic .....	<u>24,656,009</u>	<u>24,982,259</u>	<u>25,129,192</u>
Diluted .....	<u>24,788,566</u>	<u>25,106,351</u>	<u>25,330,437</u>

See accompanying notes.

**UNIVERSAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands of dollars)	Fiscal Year Ended March 31,		
	2021	2020	2019
Net income.....	\$ 96,314	\$ 78,003	\$ 110,134
Other comprehensive income (loss):			
Foreign currency translation, net of income taxes.....	8,272	(3,066)	(16,316)
Foreign currency hedge, net of income taxes.....	11,812	(11,850)	(341)
Interest rate hedge, net of income taxes.....	7,922	(26,468)	(7,462)
Pension and other postretirement benefit plans, net of income taxes.....	17,038	(14,766)	(11,665)
Total other comprehensive income (loss), net of income taxes.....	45,044	(56,150)	(35,784)
Total comprehensive income.....	141,358	21,853	74,350
Less: comprehensive income attributable to noncontrolling interests.....	(9,388)	(6,079)	(5,856)
Comprehensive income attributable to Universal Corporation.....	\$ 131,970	\$ 15,774	\$ 68,494

See accompanying notes.

**UNIVERSAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands of dollars)	March 31,	
	2021	2020
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents .....	\$ 197,221	\$ 107,430
Accounts receivable, net .....	367,482	340,711
Advances to suppliers, net .....	121,618	133,778
Accounts receivable—unconsolidated affiliates .....	584	11,483
Inventories—at lower of cost or net realizable value:		
Tobacco .....	640,653	707,298
Other .....	145,965	99,275
Prepaid income taxes .....	15,029	12,144
Other current assets .....	66,806	67,498
Total current assets .....	<u>1,555,358</u>	<u>1,479,617</u>
Property, plant and equipment		
Land .....	22,400	21,376
Buildings .....	284,430	256,488
Machinery and equipment .....	658,826	634,395
	<u>965,656</u>	<u>912,259</u>
Less accumulated depreciation .....	<u>(616,146)</u>	<u>(597,106)</u>
	349,510	315,153
Other assets		
Operating lease right-of-use assets .....	31,230	39,256
Goodwill, net .....	173,051	126,826
Other intangibles, net .....	72,304	17,861
Investments in unconsolidated affiliates .....	84,218	77,543
Deferred income taxes .....	12,149	20,954
Pension asset .....	11,950	—
Other noncurrent assets .....	52,154	43,711
	<u>437,056</u>	<u>326,151</u>
Total assets .....	<u>\$ 2,341,924</u>	<u>\$ 2,120,921</u>



**UNIVERSAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS—(Continued)**

(in thousands of dollars)	March 31,	
	2021	2020
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Notes payable and overdrafts .....	\$ 101,294	\$ 78,033
Accounts payable and accrued expenses .....	139,484	140,202
Accounts payable—unconsolidated affiliates .....	1,282	55
Customer advances and deposits .....	8,765	10,242
Accrued compensation .....	29,918	23,710
Income taxes payable .....	4,516	5,334
Current portion of operating lease liabilities .....	7,898	9,823
Current portion of long-term debt .....	—	—
Total current liabilities .....	293,157	267,399
Long-term debt .....	518,172	368,764
Pensions and other postretirement benefits .....	57,637	70,680
Long-term operating lease liabilities .....	19,725	25,893
Other long-term liabilities .....	59,814	69,427
Deferred income taxes .....	44,994	29,474
Total liabilities .....	993,499	831,637
Shareholders' equity		
Universal Corporation:		
Preferred stock:		
Series A Junior Participating Preferred Stock, no par value, 500,000 shares authorized, none issued or outstanding .....	—	—
Common stock, no par value, 100,000,000 shares authorized, 24,514,867 shares issued and outstanding (24,421,835 at March 31, 2020) .....	326,673	321,502
Retained earnings .....	1,087,663	1,076,760
Accumulated other comprehensive loss .....	(107,037)	(151,597)
Total Universal Corporation shareholders' equity .....	1,307,299	1,246,665
Noncontrolling interests in subsidiaries .....	41,126	42,619
Total shareholders' equity .....	1,348,425	1,289,284
Total liabilities and shareholders' equity .....	\$ 2,341,924	\$ 2,120,921

See accompanying notes.

**UNIVERSAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Fiscal Year Ended March 31,

(in thousands of dollars)

**Cash Flows From Operating Activities:**

	2021	2020	2019
Net income	\$ 96,314	\$ 78,003	\$ 110,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,733	38,379	37,104
Provision for losses (recoveries) on advances and guaranteed loans to suppliers	5,534	937	(2,339)
Inventory write-downs	13,463	10,319	4,002
Stock-based compensation expense	6,106	5,631	8,152
Foreign currency remeasurement loss (gain), net	(8,475)	16,422	1,786
Foreign currency exchange contracts	(1,567)	499	(32)
Deferred income taxes	(2,335)	(8,697)	3,873
Equity in net income of unconsolidated affiliates, net of dividends	(296)	1,101	3,659
Restructuring and impairment costs	22,577	7,543	20,304
Restructuring payments	(8,283)	(2,787)	(4,014)
Change in estimated fair value of contingent consideration for FruitSmart acquisition	(4,173)	—	—
Other, net	(1,373)	(9,271)	5,645
Changes in operating assets and liabilities, net:			
Accounts and notes receivable	(5,239)	16,267	(8,373)
Inventories and other assets	43,199	(94,538)	33,796
Income taxes	(4,516)	10,927	(8,981)
Accounts payable and other accrued liabilities	26,171	(48,534)	(54,912)
Customer advances and deposits	(1,426)	(11,304)	14,718
Net cash provided by operating activities	220,414	10,897	164,522

**Cash Flows From Investing Activities:**

Purchase of property, plant and equipment	(66,154)	(35,227)	(38,760)
Purchase of business, net of cash held by the business	(161,751)	(80,180)	—
Proceeds from sale of property, plant and equipment	11,436	8,547	2,061
Other	(800)	495	2,000
Net cash used by investing activities	(217,269)	(106,365)	(34,699)

**Cash Flows From Financing Activities:**

Issuance (repayment) of short-term debt, net	29,396	24,114	12,036
Issuance of long-term debt	150,000	—	41,147
Repayment of long-term debt	—	—	(41,147)
Dividends paid to noncontrolling interests in subsidiaries	(10,881)	(6,251)	(5,938)
Repurchase of common stock	—	(33,457)	(1,443)
Dividends paid on common stock	(75,177)	(75,368)	(69,883)
Proceeds from termination of interest rate swap agreements	—	—	5,428
Debt issuance costs and other	(1,949)	(3,184)	(5,987)
Net cash provided/(used) by financing activities	91,389	(94,146)	(65,787)
Effect of exchange rate changes on cash	1,257	(512)	(608)
Net increase (decrease) in cash and cash equivalents	95,791	(190,126)	63,428
Cash, restricted cash and cash equivalents at beginning of year	107,430	297,556	234,128
<b>Cash, Restricted Cash and Cash Equivalents at End of Year</b>	<b>\$ 203,221</b>	<b>\$ 107,430</b>	<b>\$ 297,556</b>

**Supplemental Information:**

<b>Cash and cash equivalents</b>	<b>\$ 197,221</b>	<b>\$ 107,430</b>	<b>\$ 297,556</b>
<b>Restricted cash (Other noncurrent assets)</b>	<b>6,000</b>	<b>—</b>	<b>—</b>
<b>Total cash, restricted cash and cash equivalents</b>	<b>\$ 203,221</b>	<b>\$ 107,430</b>	<b>\$ 297,556</b>

Supplemental information—cash paid for:

Interest	\$ 24,198	\$ 19,376	\$ 16,462
Income taxes, net of refunds	\$ 36,443	\$ 30,984	\$ 44,856

See accompanying notes.

**UNIVERSAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Universal Corporation Shareholders				
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Total Shareholders' Equity
<b>(in thousands of dollars)</b>					
<b>Fiscal Year Ended March 31, 2021</b>					
Balance at beginning of year.....	\$ 321,502	\$ 1,076,760	\$ (151,597)	\$ 42,619	\$ 1,289,284
Changes in common stock					
Accrual of stock-based compensation.....	6,106	—	—	—	6,106
Withholding of shares from stock-based compensation for grantee income taxes.....	(1,949)	—	—	—	(1,949)
Dividend equivalents on restricted stock units (RSUs).....	1,014	—	—	—	1,014
Changes in retained earnings					
Net income.....	—	87,410	—	8,904	96,314
Cash dividends declared on common stock (\$3.08 per share).....	—	(75,493)	—	—	(75,493)
Dividend equivalents on restricted stock units (RSUs).....	—	(1,014)	—	—	(1,014)
Other comprehensive income (loss)					
Foreign currency translation, net of income taxes.....	—	—	7,788	484	8,272
Foreign currency hedge, net of income taxes.....	—	—	11,812	—	11,812
Interest rate hedge, net of income taxes.....	—	—	7,922	—	7,922
Pension and other postretirement benefit plans, net of income taxes.....	—	—	17,038	—	17,038
Other changes in noncontrolling interests					
Dividends paid to noncontrolling shareholders.....	—	—	—	(10,881)	(10,881)
Balance at end of year.....	<u>\$ 326,673</u>	<u>\$ 1,087,663</u>	<u>\$ (107,037)</u>	<u>\$ 41,126</u>	<u>\$ 1,348,425</u>

**UNIVERSAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY—(Continued)**

	Universal Corporation Shareholders				
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Shareholders' Equity
<b>(in thousands of dollars)</b>					
<b>Fiscal Year Ended March 31, 2020</b>					
Balance at beginning of year	\$ 326,600	\$ 1,106,178	\$ (95,691)	\$ 42,791	\$ 1,379,878
Changes in common stock					
Repurchase of common stock	(8,562)	—	—	—	(8,562)
Accrual of stock-based compensation	5,631	—	—	—	5,631
Withholding of shares from stock-based compensation for grantee income taxes	(3,183)	—	—	—	(3,183)
Dividend equivalents on restricted stock units (RSUs)	1,016	—	—	—	1,016
Changes in retained earnings					
Net income	—	71,680	—	6,323	78,003
Cash dividends declared on common stock (\$3.04 per share)	—	(75,187)	—	—	(75,187)
Repurchase of common stock	—	(24,895)	—	—	(24,895)
Dividend equivalents on restricted stock units (RSUs)	—	(1,016)	—	—	(1,016)
Other comprehensive income (loss)					
Foreign currency translation, net of income taxes	—	—	(2,822)	(244)	(3,066)
Foreign currency hedge, net of income taxes	—	—	(11,850)	—	(11,850)
Interest rate hedge, net of income taxes	—	—	(26,468)	—	(26,468)
Pension and other postretirement benefit plans, net of income taxes	—	—	(14,766)	—	(14,766)
Other changes in noncontrolling interests					
Dividends paid to noncontrolling shareholders	—	—	—	(6,251)	(6,251)
Balance at end of year	<u>\$ 321,502</u>	<u>\$ 1,076,760</u>	<u>\$ (151,597)</u>	<u>\$ 42,619</u>	<u>\$ 1,289,284</u>

**UNIVERSAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY—(Continued)**

(in thousands of dollars)	Universal Corporation Shareholders				
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Shareholders' Equity
<b>Fiscal Year Ended March 31, 2019</b>					
Balance at beginning of year	\$ 321,559	\$ 1,080,934	\$ (60,064)	\$ 42,873	\$ 1,385,302
Changes in common stock					
Repurchase of common stock	(397)	—	—	—	(397)
Accrual of stock-based compensation	8,152	—	—	—	8,152
Withholding of shares from stock-based compensation for grantee income taxes	(3,697)	—	—	—	(3,697)
Dividend equivalents on restricted stock units (RSUs)	983	—	—	—	983
Changes in retained earnings					
Net income	—	104,121	—	6,013	110,134
Cash dividends declared on common stock (\$3.00 per share)	—	(74,914)	—	—	(74,914)
Repurchase of common stock	—	(1,046)	—	—	(1,046)
Dividend equivalents on restricted stock units (RSUs)	—	(983)	—	—	(983)
Adoption of FASB Accounting Standards Update 2016-16 eliminating deferred income taxes on unrecognized gains on intra-entity transfers of assets other than inventory	—	(1,934)	—	—	(1,934)
Other comprehensive income (loss)					
Foreign currency translation, net of income taxes	—	—	(16,159)	(157)	(16,316)
Foreign currency hedge, net of income taxes	—	—	(341)	—	(341)
Interest rate hedge, net of income taxes	—	—	(7,462)	—	(7,462)
Pension and other postretirement benefit plans, net of income taxes	—	—	(11,665)	—	(11,665)
Other changes in noncontrolling interests					
Dividends paid to noncontrolling shareholders	—	—	—	(5,938)	(5,938)
Balance at end of year	<u>\$ 326,600</u>	<u>\$ 1,106,178</u>	<u>\$ (95,691)</u>	<u>\$ 42,791</u>	<u>\$ 1,379,878</u>

**UNIVERSAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY—(Continued)**

	Fiscal Year Ended March 31,		
	2021	2020	2019
<b>Common Shares Outstanding:</b>			
Balance at beginning of year .....	24,421,835	24,989,946	24,930,725
Issuance of common stock .....	93,032	88,709	89,998
Repurchase of common stock .....	—	(656,820)	(30,777)
Balance at end of year .....	<u>24,514,867</u>	<u>24,421,835</u>	<u>24,989,946</u>

See accompanying notes.



**UNIVERSAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(All dollar amounts are in thousands, except per share amounts or as otherwise noted.)**

**NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Universal Corporation, which together with its subsidiaries is referred to herein as “Universal” or the “Company,” is a global business-to-business agri-products supplier to consumer product manufacturers. The Company is the leading global leaf tobacco supplier and provides high-quality plant-based ingredients to food and beverage end markets. The Company conducts its leaf tobacco business in over 30 countries, primarily in major tobacco-producing regions of the world.

The extent to which the ongoing COVID-19 pandemic will impact the Company's financial condition, results of operations and demand for its products and services will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the ongoing geographic spread and mutations of COVID-19, the severity of the pandemic, the duration of the COVID-19 outbreak and the type and duration of actions that may be taken by various governmental authorities in response to the COVID-19 pandemic and the impact on the U.S. and the global economies, markets and supply chains. At March 31, 2021, it is not possible to predict the overall impact of the ongoing COVID-19 pandemic on the Company's business, financial condition, results of operations and demand for its products and services.

**Consolidation**

The consolidated financial statements include the accounts of Universal Corporation and all domestic and foreign subsidiaries in which the Company maintains a controlling financial interest. Control is generally determined based on a voting interest of greater than 50%, such that Universal controls all significant corporate activities of the subsidiary. All significant intercompany accounts and transactions are eliminated in consolidation.

The equity method of accounting is used for investments in companies where Universal Corporation has a voting interest of 20% to 50%. These investments are accounted for under the equity method because Universal exercises significant influence over those companies, but not control. The Company received dividends totaling \$2.9 million in fiscal year 2021, \$3.9 million in fiscal year 2020, and \$7.5 million in fiscal year 2019, from companies accounted for under the equity method. Investments where Universal has a voting interest of less than 20% are not significant and do not have readily determinable fair values. As such, the Company has elected the alternate method of measuring these investments at cost, less any impairment. The Company's 49% ownership interest in Socotab L.L.C. (“Socotab”), a leading supplier of oriental tobaccos with operations located principally in Eastern Europe and Turkey, is the primary investment accounted for under the equity method. The investment in Socotab is an important part of the Company's overall product and service arrangements with its major customers. The Company reviews the carrying value of its investments in Socotab and its other unconsolidated affiliates on a regular basis and considers whether any factors exist that might indicate an impairment in value that is other than temporary. For the fiscal year ended March 31, 2021, the Company determined that no such factors existed with respect to those investments.

The Company's operations in Zimbabwe are deconsolidated under accounting requirements that apply under certain conditions to foreign subsidiaries that are subject to foreign exchange controls and other government restrictions. The investment in the Zimbabwe operations is accounted for at cost less impairment, and was zero at March 31, 2021 and 2020. The Company has a net foreign currency translation loss associated with the Zimbabwe operations of approximately \$7.2 million, which remains a component of accumulated other comprehensive loss at March 31, 2021. As a regular part of its reporting, the Company reviews the conditions that resulted in the deconsolidation of the Zimbabwe operations to confirm that such accounting treatment is still appropriate. Dividends from the Zimbabwe operations are recorded in income in the period received.

The Company holds less than a 100% financial interest in certain consolidated subsidiaries. The net income and shareholders' equity attributable to the noncontrolling interests in these subsidiaries are reported on the face of the consolidated financial statements. There were no material changes in the Company's ownership percentage in any of these subsidiaries during fiscal years 2021, 2020, or 2019.

**Investments in Unconsolidated Affiliates**

The Company's investments in its unconsolidated affiliates, which include its Zimbabwe operations, are non-marketable securities. Universal reviews such investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recovered. For example, the Company would review such an investment for impairment if the investee were to lose a significant customer, suffer a large reduction in sales margins, experience a major change in its business environment, or undergo any other significant change in its normal business. In assessing the recoverability of these investments, the Company follows the applicable accounting guidance in determining the fair value of the investments. In most cases, this involves the use of undiscounted and discounted cash flow models (Level 3 of the fair value hierarchy under the accounting guidance). If the fair value of an unconsolidated investee is determined to be lower than its carrying value, an impairment loss is recognized. The determination of fair value using discounted cash flow models is normally not based on

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observable market data from independent sources and therefore requires significant management judgment with respect to estimates of future operating earnings and the selection of an appropriate discount rate. The use of different assumptions could increase or decrease estimated future operating cash flows, and the discounted value of those cash flows, and therefore could increase or decrease any impairment charge related to these investments.

In its consolidated statements of income, the Company reports its proportional share of the earnings of unconsolidated affiliates accounted for on the equity method based on the pretax earnings of those affiliates, as permitted under the applicable accounting guidance. All applicable foreign and U.S. income taxes are provided on these earnings and reported as a component of consolidated income tax expense. For unconsolidated affiliates located in foreign jurisdictions, repatriation of the Company’s share of the earnings through dividends is assumed in determining consolidated income tax expense.

The following table provides a reconciliation of (1) equity in the pretax earnings of unconsolidated affiliates, as reported in the consolidated statements of income to (2) equity in the net income of unconsolidated affiliates, net of dividends, as reported in the consolidated statements of cash flows for the fiscal years ended March 31, 2021, 2020, and 2019:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Equity in pretax earnings reported in the consolidated statements of income.....	\$ 2,985	\$ 4,211	\$ 5,299
Less: Equity in income taxes.....	180	(1,390)	(1,441)
Equity in net income.....	3,165	2,821	3,858
Less: Dividends received on investments <sup>(1)</sup> .....	(2,869)	(3,922)	(7,517)
Equity in net income, net of dividends, reported in the consolidated statements of cash flows.....	<u>\$ 296</u>	<u>\$ (1,101)</u>	<u>\$ (3,659)</u>

<sup>(1)</sup> In accordance with the applicable accounting guidance, dividends received from unconsolidated affiliates accounted for on the equity method that represent a return on capital (i.e., a return of earnings on a cumulative basis) are presented as operating cash flows in the consolidated statements of cash flows.

**Earnings Per Share**

The Company calculates basic earnings per share based on earnings available to common shareholders. The calculation uses the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed in a similar manner using the weighted average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares include unvested restricted stock units and performance share units that are assumed to be fully vested and paid out in shares of common stock.

Calculations of earnings per share for the fiscal years ended March 31, 2021, 2020, and 2019, are provided in Note 5.

**Cash and Cash Equivalents**

All highly liquid investments with a maturity of three months or less at the time of purchase are classified as cash equivalents.

**Advances to Tobacco Suppliers**

In many sourcing origins where the Company operates, it provides agronomy services and seasonal advances of seed, fertilizer, and other supplies to tobacco farmers for crop production, or makes seasonal cash advances to farmers for the procurement of those inputs. These advances are short term, are repaid upon delivery of tobacco to the Company, and are reported in advances to suppliers in the consolidated balance sheets. In several origins, the Company has made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and the Company may extend repayment of those advances into future crop years. The long-term portion of advances is included in other noncurrent assets in the consolidated balance sheets. Both the current and the long-term portions of advances to tobacco suppliers are reported net of allowances recorded when the Company determines that amounts outstanding are not likely to be collected. Short-term and long-term advances to tobacco suppliers totaled approximately \$144 million at March 31, 2021 and \$153 million at March 31, 2020. The related valuation allowances totaled \$18 million at March 31, 2021, and \$16 million at March 31, 2020, and were estimated based on the Company’s historical loss information and crop projections. The allowances were increased by net provisions for estimated uncollectible amounts of approximately \$5.5 million in fiscal year 2021 and \$1.0 million in fiscal year 2020, respectively, and reduced by net recoveries of approximately \$2.3 million in fiscal year 2019. These net provisions and recoveries are included in selling, general, and administrative expenses in the consolidated statements of income. Interest on advances is recognized in earnings upon the farmers’ delivery of tobacco in payment of principal and interest. Advances on

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which interest accrual had been discontinued totaled approximately \$4 million at March 31, 2021 and \$5 million at March 31, 2020.

**Inventories**

Inventories are valued at the lower of cost or net realizable value. Raw materials primarily consist of unprocessed leaf tobacco, which is clearly identified by type and grade at the time of purchase. The Company tracks the costs associated with this tobacco in the final product lots, and maintains this identification through the time of sale. This method of cost accounting is referred to as the specific cost or specific identification method. The predominant cost component of the Company's inventories is the cost of the unprocessed tobacco. Direct and indirect processing costs related to these raw materials are capitalized and allocated to inventory in a systematic manner. The Company does not capitalize any interest or sales-related costs in inventory. Freight costs are recorded in cost of goods sold. Other inventories consist primarily of unprocessed and processed food and vegetable ingredients, seed, fertilizer, packing materials, and other supplies, and are valued principally at the lower of average cost or net realizable value.

**Recoverable Value-Added Tax Credits**

In many foreign countries, the Company's local operating subsidiaries pay significant amounts of value-added tax ("VAT") on purchases of unprocessed and processed tobacco, crop inputs, packing materials, and various other goods and services. In some countries, VAT is a national tax, and in other countries it is assessed at the state level. Items subject to VAT vary from jurisdiction to jurisdiction, as do the rates at which the tax is assessed. When tobacco is sold to customers in the country of origin, the operating subsidiaries generally collect VAT on those sales. The subsidiaries are normally permitted to offset their VAT payments against the collections and remit only the incremental VAT collections to the tax authorities. When tobacco is sold for export, VAT is normally not assessed. In countries where tobacco sales are predominately for export markets, VAT collections generated on downstream sales are often not sufficient to fully offset the subsidiaries' VAT payments. In those situations, unused VAT credits can accumulate. Some jurisdictions have procedures that allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process often takes an extended period of time, and it is not uncommon for refund applications to be challenged or rejected in part on technical grounds. Other jurisdictions may permit companies to sell or transfer unused VAT credits to third parties in private transactions, although approval for such transactions must normally be obtained from the tax authorities, limits on the amounts that can be transferred may be imposed, and the proceeds realized may be heavily discounted from the face value of the credits. Due to these factors, local operating subsidiaries in some countries can accumulate significant balances of VAT credits over time. The Company reviews these balances on a regular basis and records valuation allowances on the credits to reflect amounts that are not expected to be recovered, as well as discounts anticipated on credits that are expected to be sold or transferred. At March 31, 2021 and 2020, the aggregate balances of recoverable tax credits held by the Company's subsidiaries totaled approximately \$49 million and \$52 million, respectively, and the related valuation allowances totaled approximately \$19 million at both dates. The net balances are reported in other current assets and other noncurrent assets in the consolidated balance sheets.

**Property, Plant and Equipment**

Depreciation of property, plant and equipment is based upon historical cost and the estimated useful lives of the assets. Depreciation is calculated primarily using the straight-line method. Buildings include processing and blending facilities, offices, and warehouses. Machinery and equipment consists of processing and packing machinery and transport, office, and computer equipment. Estimated useful lives range as follows: buildings - 15 to 40 years; processing and packing machinery - 3 to 11 years; transport equipment - 3 to 10 years; and office and computer equipment - 3 to 12 years. Where applicable and material in amount, the Company capitalizes related interest costs during periods that property, plant and equipment are being constructed or made ready for service. No interest was capitalized in fiscal years 2021, 2020, or 2019.

**Leases**

As discussed below under "Accounting Pronouncements", the Company adopted updated comprehensive accounting guidance for leases at the beginning of fiscal year 2020 (Accounting Standards Update No. 2016-02, "Leases (Topic 842)" and supplemental amendments, which superseded the lease accounting requirements in Topic 840).

The Company determines if an arrangement meets the definition of a lease at inception. The Company, as a lessee, enters into operating leases for land, buildings, equipment, and vehicles. For all operating leases with terms greater than 12 months and with fixed payment arrangements, a lease liability and corresponding right-of-use asset are recognized in the balance sheet for the term of the lease by calculating the net present value of future lease payments. On the date of lease commencement, the present value of lease liabilities is determined by discounting the future lease payments by the Company's collateralized incremental borrowing rate, adjusted for the lease term and currency of the lease payments. If a lease contains a renewal option that the Company is reasonably certain to exercise, the Company accounts for the original lease term and expected renewal term in the calculation of the lease liability and right-of-use asset. Certain of the Company's leases include both lease and non-lease

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components (e.g., common-area or other maintenance costs) which are accounted for as a single lease component, as the Company has elected the practical expedient to group lease and non-lease components for real estate leases.

**Goodwill and Other Intangibles**

Goodwill and other intangibles are disclosed in Note 7. Goodwill principally consists of the excess of the purchase price of acquired companies over the fair value of the net assets. Goodwill is carried at the lower of cost or fair value and is reviewed for potential impairment on an annual basis as of the end of the fiscal year. Accounting Standards Codification Topic 350 (“ASC 350”) permits companies to base their initial assessments of potential goodwill impairment on qualitative factors, and the Company elected to use that approach at March 31, 2021 and 2020. Those factors did not indicate that it was more likely than not that the fair value of any of the reporting units was less than their respective carrying value, therefore no potential impairment of the Company's recorded goodwill was noted as of those dates.

Reporting units are distinct operating subsidiaries or groups of subsidiaries that typically compose the Company's business in a specific country or location. Goodwill is allocated to reporting units based on the country or location to which a specific acquisition relates, or by allocation based on expected future cash flows if the acquisition relates to more than one country or location. The majority of the Company's goodwill relates to its reporting unit in Brazil and recent acquisitions of Silva International Inc. and FruitSmart, Inc. See Note 2 for additional information. Significant adverse changes in the operations or estimated future cash flows for a reporting unit with recorded goodwill could result in an impairment charge.

Other intangibles principally consists of finite lived intangible assets including customer-related intangibles, trade names, developed technology, and noncompetition agreements. Intangible assets acquired in a business combination are recorded at fair value using a discounted cash flow approach. A discounted cash flow approach to value intangible assets requires assumptions about the timing, amount, and probability of future net cash flows, as well as the discount rate and market participant considerations. Other intangibles are amortized on a straight-line basis over the intangible asset's economic life.

**Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment, disclosed in Note 4 and Note 12, whenever events, changes in business conditions, or other circumstances provide an indication that such assets may be impaired. Potential impairment is initially assessed by comparing management's undiscounted estimates of future cash flows from the use or disposition of the assets to their carrying value. If the carrying value exceeds the undiscounted cash flows, an impairment charge is recorded to reduce the carrying value of the asset to its fair value determined in accordance with the accounting guidance. In many cases, this involves the use of discounted cash flow models that are not based on observable market data from independent sources (Level 3 of the fair value hierarchy under the accounting guidance).

**Income Taxes**

The Company provides deferred income taxes on temporary differences between the book and tax basis of its assets and liabilities. Those differences arise principally from employee benefit accruals, depreciation, deferred compensation, undistributed earnings of unconsolidated affiliates, undistributed earnings of foreign subsidiaries, goodwill, and valuation allowances on farmer advances and value-added tax credits. Income taxes provided on pretax amounts recorded in accumulated other comprehensive income (loss) are released when the related pretax amounts are reclassified to earnings. Additional disclosures related to the Company's income taxes are disclosed in Note 6.

**Fair Values of Financial Instruments**

The fair value of the Company's long-term debt, disclosed in Note 12, approximates the carrying amount since the variable interest rates in the underlying credit agreement reflect the market interest rates that were available to the Company at March 31, 2021. In periods when fixed-rate obligations are outstanding, fair values are estimated using market prices where they are available or discounted cash flow models based on current incremental borrowing rates for similar classes of borrowers and borrowing arrangements. The fair values of interest rate swap agreements designated as cash flow hedges and used to fix the variable benchmark rate on outstanding long-term debt are determined separately and recorded in other long-term liabilities. Except for interest rate swaps and forward foreign currency exchange contracts that are discussed below, the fair values of all other assets and liabilities that qualify as financial instruments approximate their carrying amounts.

**Derivative Financial Instruments**

The Company recognizes all derivatives on the balance sheet at fair value. Interest rate swaps and forward foreign currency exchange contracts are used from time to time to manage interest rate risk and foreign currency risk. The Company enters into such contracts only with counterparties of good standing. The credit exposure related to non-performance by the counterparties and the Company is considered in determining the fair values of the derivatives, and the effect has not been

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material to the financial statements or operations of the Company. Additional disclosures related to the Company's derivatives and hedging activities are provided in Note 11.

**Translation and Remeasurement of Foreign Currencies**

The financial statements of foreign subsidiaries having the local currency as the functional currency are translated into U.S. dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates applicable to each reporting period for results of operations. Adjustments resulting from translation of financial statements are reflected as a separate component of other comprehensive income or loss. The financial statements of foreign subsidiaries having the U.S. dollar as the functional currency, with certain transactions denominated in a local currency, are remeasured into U.S. dollars. The remeasurement of local currency amounts into U.S. dollars creates remeasurement gains and losses that are included in earnings as a component of selling, general, and administrative expenses. The Company recognized net remeasurement gains of \$8.5 million in fiscal year 2021, and net remeasurement losses of \$16.4 million in fiscal year 2020 and \$1.8 million in fiscal year 2019.

Foreign currency transactions and forward foreign currency exchange contracts that are not designated as hedges generate gains and losses when they are settled or when they are marked-to-market under the prescribed accounting guidance. These transaction gains and losses are also included in earnings as a component of selling, general, and administrative expenses. The Company recognized net foreign currency transaction losses of \$1.4 million in fiscal year 2021, \$2.9 million in fiscal year 2020, and \$4.3 million in fiscal year 2019.

**Revenue Recognition**

Revenue is recognized when the Company completes its performance obligation for the transfer of products and services under its contractual arrangements with customers. For sales of tobacco, satisfaction of the performance obligation and recognition of the corresponding revenue is based on the transfer of the ownership and control of the product to the customer, which is substantially unchanged from the previous accounting guidance. A large percentage of the Company's sales are to major multinational manufacturers of consumer tobacco products. The Company works closely with those customers to understand and plan for their requirements for volumes, styles, and grades of leaf tobacco from its various growing regions, and extensive coordination is maintained on an ongoing basis to determine and satisfy their requirements for transfer of ownership and physical shipment of processed tobacco. The customers typically specify, in sales contracts and in shipping documents, the precise terms for transfer of title and risk of loss for the tobacco. Customer returns and rejections are not significant, and the Company's sales history indicates that customer-specific acceptance provisions are consistently met upon transfer of title and risk of loss.

While most of the Company's revenue is derived from tobacco that is purchased from farmers, processed and packed in its factories, and then sold to customers, some revenue is earned from processing tobacco owned by customers and from other value-added services. The arrangements for processing services usually exist in specific markets where the customers contract directly with farmers for leaf production, and they have accounted for less than 5% of total revenue on an annual basis through the fiscal year ended March 31, 2021. Processing and packing of leaf tobacco is a short-duration process. Under normal operating conditions, raw tobacco that is placed into the production line exits as processed and packed tobacco within one hour, and is then later transported to customer-designated storage facilities. The revenue for these services is recognized when the performance obligation is met upon the completion of processing, and the Company's operating history indicates that customer requirements for processed tobacco are consistently met upon completion of processing.

The Company has diversified its operations through acquisition of established companies that offer customers a wide range of both liquid and dehydrated fruit and vegetable ingredient products. These operations procure raw materials from domestic and international growers and suppliers and through a variety of processing steps (including sorting, cleaning, pressing, mixing, and blending), manufacture finished goods utilized in both human and pet food. The contracts for food ingredients with customers create a performance obligation to transfer the manufactured finished goods to the customer. Transaction prices for the sale of food ingredients are primarily based on negotiated fixed prices. At the point in time that the customer obtains control over the finished product, which is typically aligned with physical shipment under the contractual terms with the customer, the Company completes its performance obligation and recognizes the revenue for the sale.

Additional disclosures related to the Company's revenue from contracts with customers are provided in Note 3.

**Stock-Based Compensation**

Share-based payments, such as grants of restricted stock units, performance share units, restricted stock, stock appreciation rights, and stock options, are measured at fair value and reported as expense in the financial statements over the requisite service period. Additional disclosures related to stock-based compensation are included in Note 15.

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**Estimates and Assumptions**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Accounting Pronouncements**

*Pronouncements Adopted in Fiscal Year 2019*

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”). ASU 2016-16 requires companies to recognize the income tax effects of intercompany sales or transfers of assets other than inventory in the income statement as income tax expense in the period the sale or transfer occurs, rather than deferring those tax effects until the asset has been sold to a third-party or otherwise recognized in earnings through depreciation, amortization, or impairment. In prior fiscal reporting periods, various subsidiaries of the Company sold tobacco processing equipment to other subsidiaries, and the related income effects have been deferred as required under the previous accounting guidance. The Company adopted ASU 2016-16 effective April 1, 2018, the beginning of fiscal year 2019. Under the modified retrospective transition method required by the guidance, the Company recorded a \$1.9 million reduction to retained earnings for the fiscal year ended March 31, 2019 for the cumulative effect of recognizing the deferred income tax effects on all prior intercompany sales of equipment as of the date of adoption.

*Pronouncements Adopted in Fiscal Year 2020*

The Company adopted FASB Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”) effective April 1, 2019, the beginning of the current fiscal year. For leases with fixed payment arrangements, ASU 2016-02 requires a lessee to recognize lease payment obligations as a lease liability and corresponding right-of-use asset in the balance sheet for the term of the lease. This guidance superseded Topic 840 “Leases.” The Company elected the practical expedient to not include leases with terms less than 12 months on the consolidated balance sheet. The Company elected the transition package of practical expedients that retained the historical lease identification, lease classification, and treatment of initial direct costs for leases prior to the adoption of ASU 2016-02. Additionally, as permitted under the new guidance the Company elected to not separate lease and non-lease components for certain classes of leased assets, including real estate. The Company elected the modified retrospective transition adoption method. Accordingly, on the date of adoption \$36.6 million of operating lease right-of-use assets and corresponding operating lease liabilities of \$34.2 million were recognized on the Company’s consolidated balance sheet. The adoption of ASU 2016-02 did not result in a cumulative-effect adjustment to retained earnings. The disclosures required for lease accounting are provided in Note 10.

The Company adopted FASB Accounting Standards Update No. 2017-04, “Intangibles - Goodwill and Other (Topic 350)” (“ASU 2017-04”) effective July 1, 2019. Under current accounting guidance, the fair value of a reporting unit to which a specific goodwill balance relates is first compared to its carrying value in the financial statements (Step 1). If that comparison indicates that the goodwill is impaired, an implied fair value for the goodwill must then be calculated by deducting the individual fair values of all other assets and liabilities, including any unrecognized intangible assets, from the total fair value of the reporting unit. ASU 2017-04 simplifies the accounting guidance by eliminating Step 2 from the goodwill impairment test and using the fair value of the reporting unit determined in Step 1 to measure the goodwill impairment loss. There was no material impact to the consolidated financial statements from the adoption of ASU 2017-04.

*Pronouncements Adopted in Fiscal Year 2021*

The Company adopted FASB Accounting Standards Update No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”) effective April 1, 2020. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company determined that the update applied to trade receivables, but that there was no material impact to the consolidated financial statements from the adoption of ASU 2016-13.

The Company adopted FASB Accounting Standards Update No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of FASB Emerging Issues Task Force)” (“ASU 2018-15”) effective April 1, 2020. ASU 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. Under that model, implementation costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred. Capitalized implementation costs are amortized over the term of the associated hosted cloud computing arrangement service contract on a straight-line basis, unless another systematic and rational basis is more representative of the pattern in which



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the entity expects to benefit from its right to access the hosted software. Capitalized implementation costs would then be assessed for impairment in a manner similar to long-lived assets. There was no material impact to the consolidated financial statements from the adoption of ASU 2018-15.

*Pronouncements to be Adopted in Future Periods*

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, “Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes” (“ASU 2019-12”). ASU 2019-12 eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The updated guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance in ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, although early adoption is permitted. The Company will be required to adopt the new standard effective April 1, 2021, which is the beginning of its fiscal year ending March 31, 2022, and is currently evaluating the impact that the guidance will have on its consolidated financial statements.

In March 2020, the FASB issued Accounting Standards Update No. 2020-04, “Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions related to contract modifications and hedge accounting to address the transitions from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. The guidance permits an entity to consider contract modification due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. ASU 2020-04 also temporarily allows hedge relationships to continue without de-designation upon changes due to reference rate reform. The standard is effective upon issuance and can be applied as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact that the guidance will have on its consolidated financial statements.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

**NOTE 2. BUSINESS COMBINATIONS**

*Acquisition of Silva International, Inc.*

On October 1, 2020 the Company acquired 100% of the capital stock of Silva International, Inc. (“Silva”), a natural, specialty dehydrated vegetable, fruit, and herb processing company serving global markets, for approximately \$164 million in cash and \$5.9 million of additional working capital on-hand at the date of acquisition. The acquisition of Silva diversifies the Company's product offerings and generates new opportunities for its plant-based ingredients platform.

The initial allocation of the purchase price for Silva was based on preliminary valuations and assumptions and is subject to change within the 12-month measurement period following the date of acquisition (October 1, 2020). The Company finalized a working capital settlement in the fourth quarter of fiscal year 2021 and adjusted the beginning balance sheet for certain tax related assets and liabilities. The Company is still reviewing tax related assets and liabilities. The final purchase price allocation will be completed by the second quarter of fiscal year 2022.

The Company continues to employ one of Silva's selling shareholders and as stipulated in the Silva purchase agreement has transferred \$6 million to a third-party escrow account that may ultimately be earned by the selling shareholder upon completion of a post-combination service period. Since the compensation agreement for the selling shareholder who remains employed with the Company includes a post-combination service period, the Company has excluded the entire \$6 million in the purchase price to be allocated. The \$6 million in escrow is recognized as restricted cash in other noncurrent assets on the consolidated balance sheet at March 31, 2021. The contingent consideration arrangement for the selling shareholder includes a post-combination service requirement and forfeitable payment provisions, therefore under ASC Topic 805, “Business Combinations,” must be treated as compensation expense and recognized ratably over the requisite service period in selling, general, and administrative expense on the consolidated statements of income.

For the fiscal year ended March 31, 2021, the Company incurred \$3.9 million for acquisition-related transaction costs for the purchase of Silva. The acquisition-related costs were expensed as incurred and recorded in selling, general, and administrative expense on the consolidated statements of income.

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*Acquisition of FruitSmart, Inc.*

On January 1, 2020 the Company acquired 100% of the capital stock of FruitSmart, Inc. (“FruitSmart”), an independent specialty fruit and vegetable ingredient processor serving global markets, for approximately \$80 million in cash, up to \$25 million of contingent consideration payments, and \$3.8 million of additional working capital on-hand at the date of acquisition. The contingent consideration is based on FruitSmart’s achievement of certain adjusted gross profit metrics in calendar years 2020 and 2021. The fair value of the contingent consideration, approximately \$6.7 million, was recognized on the acquisition date and was measured using unobservable (Level 3) inputs. At June 30, 2020 the forecasted calendar year 2020 adjusted gross profit for FruitSmart was not expected to achieve the adjusted gross profit threshold required for a contingent consideration payment. Therefore, in the quarter ended June 30, 2020, the Company recorded \$4.2 million in other operating income for the reversal of a portion of the contingent consideration liability. As of March 31, 2021, \$2.5 million of contingent consideration liability related to the FruitSmart acquisition is included in accounts payable and accrued expenses on the consolidated balance sheet.

For the fiscal year ended March 31, 2020, the Company incurred \$4.7 million of acquisition-related transaction costs for the purchase of FruitSmart. The acquisition-related costs were expensed as incurred and recorded as selling, general, and administrative expenses on the consolidated statements of income.

The following table summarizes the preliminary purchase price allocation of the assets acquired and liabilities assumed for the Silva acquisition and final purchase price allocation for the FruitSmart acquisition.

	Silva October 1, 2020	FruitSmart January 1, 2020
<b>Assets</b>		
Cash and cash equivalents	\$ 8,126	\$ 1,298
Accounts receivable, net	17,885	7,707
Advances to suppliers, net	3,011	—
Inventory	33,162	23,793
Other current assets	833	310
Property, plant and equipment (net)	24,437	23,400
Intangibles		
Customer relationships	53,000	9,500
Developed technology	—	4,800
Trade names	7,800	3,300
Non-compete agreements	—	1,000
Goodwill	46,144	28,863
<b>Total assets acquired</b>	<b>194,398</b>	<b>103,971</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	11,683	7,592
Accrued compensation	3,350	670
Income taxes payable	946	—
Deferred income taxes	14,419	9,004
<b>Total liabilities assumed</b>	<b>30,398</b>	<b>17,266</b>
<b>Total assets acquired and liabilities assumed</b>	<b>\$ 164,000</b>	<b>\$ 86,705</b>

A portion of the goodwill recorded as part of the acquisitions was attributable to the assembled workforce of FruitSmart and Silva, respectively. The tax basis of the assets acquired and liabilities did not result in a step-up of tax basis and the related goodwill is not deductible for U.S. income tax purposes. The Company determined the FruitSmart and Silva operations were not material to the Company’s consolidated results. Therefore, pro forma information is not presented.

**NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS**

The majority of the Company’s consolidated revenue consists of sales of processed leaf tobacco to customers. The Company also has fruit and vegetable processing operations that provide customers with a range of food ingredient products. In addition, the Company earns revenue from processing leaf tobacco owned by customers and from various other services provided to customers. Payment terms with customers vary depending on customer creditworthiness, product types, services provided, and

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other factors. Contract durations and payment terms for all revenue categories generally do not exceed one year. Therefore, the Company has applied a practical expedient to not adjust the transaction price for the effects of financing components, as the Company expects that the period from the time the revenue for a transaction is recognized to the time the customer pays for the related good or service transferred will be one year or less. Below is a description of the major revenue-generating categories from contracts with customers.

*Tobacco Sales*

The majority of the Company's business involves purchasing leaf tobacco from farmers in the origins where it is grown, processing and packing the tobacco in its factories, and then transferring ownership and control of the tobacco to customers. On a much smaller basis, the Company also sources processed tobacco from third-party suppliers for resale to customers. The contracts for tobacco sales with customers create a performance obligation to transfer tobacco to the customer. Transaction prices for the sale of tobaccos are primarily based on negotiated fixed prices, but the Company does have a small number of cost-plus contracts with certain customers. Cost-plus arrangements provide the Company reimbursement of the cost to purchase and process the tobacco, plus a contractually agreed-upon profit margin. The Company utilizes the most likely amount methodology under the accounting guidance to recognize revenue for cost-plus arrangements with customers. Shipping and handling costs under tobacco sales contracts with customers are treated as fulfillment costs and included in the transaction price. Taxes assessed by government authorities on the sale of leaf tobacco products are excluded from the transaction price. At the point in time that the customer obtains control over the tobacco, which is typically aligned with physical shipment under the contractual terms with the customer, the Company completes its performance obligation and recognizes the revenue for the sale.

*Ingredient Sales*

In recent fiscal years, the Company has diversified its operations through acquisition of established companies that offer customers a wide range of both liquid and dehydrated fruit and vegetable ingredient products. These operations procure raw materials from domestic and international growers and suppliers and through a variety of processing steps (including sorting, cleaning, pressing, mixing, and blending) manufacture finished goods utilized in both human and pet food. The contracts for food ingredients with customers create a performance obligation to transfer the manufactured finished goods to the customer. Transaction prices for the sale of food ingredients are primarily based on negotiated fixed prices. At the point in time that the customer obtains control over the finished product, which is typically aligned with physical shipment under the contractual terms with the customer, the Company completes its performance obligation and recognizes the revenue for the sale.

*Processing Revenue*

Processing and packing of customer-owned tobacco and food ingredients is a short-duration process. Processing charges are primarily based on negotiated fixed prices per unit of weight processed. Under normal operating conditions, customer-owned raw materials that are placed into the production line exit as processed and packed product and are then later transported to customer-designated transfer locations. The revenue for these services is recognized when the performance obligation is satisfied, which is generally when processing is completed. The Company's operating history and contract analyses indicate that customer requirements for processed tobacco and food ingredients products are consistently met upon completion of processing.

*Other Operating Sales and Revenue*

From time to time, the Company enters into various arrangements with customers to provide other value-added services that may include sorting, blending, bobbinizing, chemical and physical testing of products, storage, and other tobacco services for select manufacturers. These other arrangements and operations are a much smaller portion of the Company's business, and are separate and distinct contractual agreements from the Company's tobacco and food ingredients sales or third-party processing arrangements with customers. The transaction prices and timing of revenue recognition of these items are determined by the specifics of each contract.

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*Disaggregation of Revenue from Contracts with Customers*

The following table disaggregates the Company’s revenue by significant revenue-generating category:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Tobacco sales .....	\$ 1,715,066	\$ 1,759,769	\$ 2,085,001
Ingredient sales .....	127,393	22,014	4,769
Processing revenue .....	73,021	76,123	85,426
Other sales and revenue from contracts with customers .....	49,983	33,971	37,930
Total revenue from contracts with customers .....	1,965,463	1,891,877	2,213,126
Other operating sales and revenues .....	17,894	18,102	14,027
Consolidated sales and other operating revenues .....	<u>\$ 1,983,357</u>	<u>\$ 1,909,979</u>	<u>\$ 2,227,153</u>

Other operating sales and revenues consists principally of interest on advances to tobacco suppliers and dividend income from unconsolidated affiliates.

*Major Customers*

A material part of the Company’s business is dependent upon a few customers. The Company’s seven largest customers are Altria Group, Inc, British American Tobacco plc, China Tobacco International, Inc., Imperial Brands plc, Japan Tobacco, Inc., Philip Morris International, Inc., and Swedish Match AB. In the aggregate, these customers have accounted for approximately 70% of consolidated revenue for each of the past three fiscal years. For the fiscal years ended March 31, 2021, 2020, and 2019, revenue from Philip Morris International, Inc. was approximately \$460 million, \$500 million, and \$650 million, respectively. For the same periods, Imperial Brands plc accounted for revenue of approximately \$340 million, \$320 million, and \$360 million, respectively, and British American Tobacco plc accounted for revenue of approximately \$210 million, \$190 million, and \$270 million, respectively. These customers do business with various affiliates in the Company’s Tobacco Operations segment. The loss of, or substantial reduction in business from, any of these customers could have a material adverse effect on the Company.

**NOTE 4. RESTRUCTURING AND IMPAIRMENT COSTS**

During the fiscal years ended March 31, 2021, 2020, and 2019 Universal recorded restructuring and impairment costs related to business changes and various initiatives to adjust certain operations and reduce costs.

*Fiscal Year Ended March 31, 2021*

*Tobacco Operations*

In fiscal year 2021, the Company incurred \$4.4 million of termination and impairment costs associated with restructuring of tobacco buying and administrative operations in Africa, \$1.2 million of combined termination costs in other regions, and a \$0.9 million charge for the liquidation of an idled service entity in Tanzania. Total restructuring and impairments costs related to the Tobacco Operations segment were \$6.5 million for the fiscal year ended March 31, 2021.

*Ingredients Operations*

In fiscal year 2021, the Company committed to a plan to wind-down its subsidiary, Carolina Innovative Food Ingredients, Inc. (“CIFI”), a sweet potato processing operation located in Nashville, North Carolina. The CIFI operation was a start-up project initially undertaken by the Company in fiscal year 2015. The decision to wind down CIFI is consistent with the Company’s capital allocation strategy to focus on delivering shareholder value through building and enhancing a plant-based ingredients platform, which includes integrating and exploring the synergies of recently acquired businesses, FruitSmart and Silva. The Company determined that CIFI was not a strategic fit for the platform’s long-term objectives. CIFI’s single-product focused processing facility and ongoing international pricing pressures, among other factors, created challenges that proved insurmountable. Sales of existing inventory and certain administrative activities at CIFI will continue into fiscal year 2022, but no manufacturing occurred subsequent to December 31, 2020. As a result of the decision to wind down the CIFI operations, the Company incurred termination costs totaling approximately \$0.6 million for employees whose permanent positions were eliminated. In addition to the termination costs, the Company recognized various other costs associated with the wind-down of the CIFI facility. These costs include impairments of property, plant, and equipment (including the factory building), as well as

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inventory and supply write-downs. The total restructuring and impairment charge incurred for the CIFI wind-down was \$16.1 million for the fiscal year ended March 31, 2021.

*Fiscal Year Ended March 31, 2020*

*Tobacco Operations*

In fiscal year 2020, the Company recorded restructuring and impairment costs totaling \$7.5 million, primarily related to \$3.4 million of employee termination benefits for a voluntary workforce reduction at the Company's tobacco facilities in North Carolina, \$1.8 million of employee termination benefits for the Company's operations in Africa, and a \$2.2 million impairment charge for machinery used by the Company's operations in Africa. Restructuring and impairment costs were also incurred in connection with downsizing efforts at several other locations around the Company.

*Fiscal Year Ended March 31, 2019*

*Tobacco Operations*

Due to the decline in customer demand for tobaccos from Tanzania, as well as regulatory, tax, and other business and operating considerations, the Company undertook a formal review of the Tanzania leaf tobacco market and its operations there in the third quarter of fiscal year 2019. Based on that review, the Company's operating subsidiaries in Tanzania took steps to reduce operating costs going forward, including discontinuation of a year-round workforce. As a result of that initiative, the subsidiaries recorded a \$4.0 million restructuring charge for termination benefits paid to employees whose permanent positions were eliminated. All amounts related to termination benefit costs were paid by the end of fiscal year 2019.

In addition, as a result of the decrease in production volumes of Tanzania tobaccos and the associated reduced profitability, the Company determined that indicators of impairment in the carrying value of the property, plant and equipment comprising the Tanzania operations were present at December 31, 2018. Accordingly, based on the applicable accounting guidance, the Company tested the recoverability of those long-lived assets using undiscounted estimates of the future cash flows from the use of those assets and their eventual disposition. The property, plant and equipment were evaluated for recoverability using two distinct asset groups: (1) the land, building, and equipment comprising the processing facility, and (2) all remaining assets, which are substantially devoted to buying and receiving delivery of unprocessed leaf from farmers and marketing and shipping the processed tobacco to customers. The recoverability tests indicated that both asset groups were impaired at December 31, 2018. As a result, the Company determined the fair value of each asset group based principally on a probability-weighting of the discounted cash flows expected under multiple operating and disposition scenarios. An impairment charge of approximately \$14.6 million was recorded to reduce the carrying value of the assets to their indicated fair values. The property, plant and equipment assets are used in buying, processing, and shipping and remain classified as "held and used" at this time as provided for under the accounting guidance. Should the expected cash flows from the future use and/or disposition of the assets change from the estimates on which their fair values were determined, additional impairment charges could be required, or gains or losses on any disposition of the assets could be recorded. The Company also had goodwill related to the Tanzanian operations of approximately \$0.9 million which was separately tested for recoverability and fully written off based on the results of that test.

Additional restructuring costs of approximately \$0.9 million were incurred in connection with downsizing efforts at other locations around the Company during fiscal year 2019.

A summary of the restructuring and impairment costs incurred during the fiscal years ended March 31, 2021, 2020, and 2019 is as follows:

	<b>Fiscal Years Ended</b>		
	<b>March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Restructuring Costs:</b>			
Employee termination benefits.....	\$ 5,237	\$ 5,356	\$ 4,608
Other restructuring costs.....	3,468	—	223
	<u>8,705</u>	<u>5,356</u>	<u>4,831</u>
<b>Impairment Costs:</b>			
Property, plant, and equipment and other noncurrent assets.....	13,872	2,187	14,584
Goodwill.....	—	—	889
	<u>\$ 13,872</u>	<u>\$ 2,187</u>	<u>\$ 15,473</u>
Total restructuring and impairment costs.....	<u>\$ 22,577</u>	<u>\$ 7,543</u>	<u>\$ 20,304</u>

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A reconciliation of the Company’s liability for employee termination benefits and other restructuring costs for fiscal years 2019 through 2021 is as follows:

	<b>Employee Termination Benefits</b>	<b>Other Costs</b>	<b>Total</b>
Balance at April 1, 2019.....	\$ 29	\$ —	\$ 29
<b>Fiscal Year 2019 Activity:</b>			
Costs charged to expense.....	4,608	223	4,831
Payments and write-offs.....	(4,014)	—	(4,014)
Balance at March 31, 2019.....	623	223	846
<b>Fiscal Year 2020 Activity:</b>			
Costs charged to expense.....	5,356	—	5,356
Payments and write-offs.....	(2,564)	(223)	(2,787)
Balance at March 31, 2020.....	3,415	—	3,415
<b>Fiscal Year 2021 Activity:</b>			
Costs charged to expense.....	5,237	3,468	8,705
Payments and write-offs.....	(7,282)	(2,855)	(10,137)
Balance at March 31, 2021.....	<u>\$ 1,370</u>	<u>\$ 613</u>	<u>\$ 1,983</u>

The restructuring liability at March 31, 2021 is expected to be paid during fiscal year 2022. Universal continually reviews its business for opportunities to realize efficiencies, reduce costs, and realign its operations in response to business changes. The Company may incur additional restructuring and impairment costs in future periods as business changes occur and additional cost savings initiatives are implemented.

**NOTE 5. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands, except share and per share data)	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Basic Earnings Per Share</b>			
<b>Numerator for basic earnings per share</b>			
Net income attributable to Universal Corporation.....	\$ 87,410	\$ 71,680	\$ 104,121
<b>Denominator for basic earnings per share</b>			
Weighted average shares outstanding.....	24,656,009	24,982,259	25,129,192
<b>Basic earnings per share</b> .....	<u>\$ 3.55</u>	<u>\$ 2.87</u>	<u>\$ 4.14</u>
<b>Diluted Earnings Per Share</b>			
<b>Numerator for diluted earnings per share</b>			
Net income attributable to Universal Corporation.....	\$ 87,410	\$ 71,680	\$ 104,121
<b>Denominator for diluted earnings per share:</b>			
Weighted average shares outstanding.....	24,656,009	24,982,259	25,129,192
Effect of dilutive securities			
Employee and outside director share-based awards.....	132,557	124,092	201,245
Denominator for diluted earnings per share.....	<u>24,788,566</u>	<u>25,106,351</u>	<u>25,330,437</u>
<b>Diluted earnings per share</b> .....	<u>\$ 3.53</u>	<u>\$ 2.86</u>	<u>\$ 4.11</u>

**UNIVERSAL CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 6. INCOME TAXES**

The Company operates in the United States and many foreign countries and is subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect the Company’s earnings, as can the resolution of pending and contested tax issues. The Company’s consolidated effective income tax rate is affected by a number of factors, including the mix of domestic and foreign earnings and the effect of exchange rate changes on local taxable income and deferred taxes in foreign countries.

For fiscal years ended March 31, 2021, 2020, and 2019 the Company’s U.S. federal statutory tax rate is 21.0%. The U.S. tax system is primarily territorial based after the enactment of the Tax Cuts and Jobs Act of 2017. The U.S. tax law imposes a tax on U.S. shareholders on certain low-taxed income earned by controlled foreign corporations, referred to as global intangible low-taxed income (“GILTI”). The Company has made an accounting policy election to account for any additional tax resulting from the GILTI provisions in the year in which it is incurred and has not recorded any deferred taxes on temporary book-tax differences related to this income.

The Company continues to assume repatriation of all undistributed earnings of its consolidated foreign subsidiaries and has therefore provided for expected foreign withholding taxes on the distribution of those earnings where applicable, net of any U.S. tax credit attributable to those withholding taxes. The Company has asserted permanent reinvestment of the book basis of certain foreign subsidiaries, and accordingly, no deferred income tax liability has been recorded for any potential taxable gain that may be realized on a future disposition or liquidation of any of those subsidiaries. It is not practicable for the Company to quantify any deferred income tax liability that would be attributable to those events.

**Income Tax Expense**

Income taxes for the fiscal years ended March 31, 2021, 2020, and 2019 consisted of the following:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Current</b>			
United States.....	\$ 9,500	\$ 2,001	\$ (2,639)
State and local.....	621	92	377
Foreign.....	21,626	41,892	39,578
	<u>31,747</u>	<u>43,985</u>	<u>37,316</u>
<b>Deferred</b>			
United States.....	(5,938)	3,735	5,713
State and local.....	(314)	(16)	(4)
Foreign.....	3,917	(12,416)	(1,837)
	<u>(2,335)</u>	<u>(8,697)</u>	<u>3,872</u>
Total.....	<u>\$ 29,412</u>	<u>\$ 35,288</u>	<u>\$ 41,188</u>

Foreign taxes include any applicable U.S. tax expense on the earnings of foreign subsidiaries.



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**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Consolidated Effective Income Tax Rate**

A reconciliation of the U.S. federal statutory tax rate to the Company’s effective income tax rate is as follows:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
U.S. federal statutory tax rate .....	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit .....	0.2	0.1	0.2
Foreign earnings taxed at rates other than the U.S. federal statutory tax rate .....	(0.9)	(2.0)	7.1
Foreign dividend withholding taxes .....	5.3	5.1	3.7
Reversal of dividend withholding tax due to foreign subsidiary tax holiday .....	—	—	(5.1)
Changes in uncertain tax positions .....	—	5.6	1.4
Other .....	(2.2)	1.3	(1.1)
Effective income tax rate .....	<u>23.4 %</u>	<u>31.1 %</u>	<u>27.2 %</u>

Final United States GILTI regulations published in July 2020 significantly changed from the proposed regulations published in 2019. The final regulations allow for an annual election for GILTI high-tax exclusion instead of a 5-year election and permitted retroactive application to years beginning after December 31, 2017. Universal elected to apply the final regulations to fiscal years 2019 and 2020 which resulted in a tax reduction of \$2.7 million. In fiscal year 2021, the Company also recognized a \$4.4 million net tax benefit for final U.S. tax regulations issued for hybrid dividends paid by foreign subsidiaries.

During fiscal year 2020, the Company resolved a transfer pricing matter related to a foreign subsidiary. The resolution of the uncertainty with the local country taxing authorities resulted in net additional current income tax expense of \$2.8 million. The additional income tax expense for fiscal year 2020 increased the effective tax rate for the year by 2.4%

During fiscal year 2019, the Company reversed amounts previously recorded for dividend withholding taxes on distributed and undistributed retained earnings of a foreign subsidiary. The reversal followed the resolution of uncertainties with the local country taxing authorities with respect to the inclusion of the tax under a tax holiday applicable to the subsidiary and was attributable to cumulative retained earnings amounts previously distributed or expected to be distributed prior to the expiration of the tax holiday. The reversal reduced income tax expense for fiscal year 2019 by approximately \$7.8 million, which decreased the effective tax rate for the year by 5.1%, as noted in the above rate reconciliation.

**Components of Income Before Income Taxes**

The U.S. and foreign components of income before income taxes were as follows:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
United States .....	\$ 30,060	\$ 22,916	\$ 37,478
Foreign .....	95,666	90,375	113,844
Total .....	<u>\$ 125,726</u>	<u>\$ 113,291</u>	<u>\$ 151,322</u>

**UNIVERSAL CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Deferred Income Tax Liabilities and Assets**

Significant components of deferred tax liabilities and assets were as follows:

	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Liabilities</b>		
Foreign withholding taxes.....	\$ 21,711	\$ 19,870
Property, plant and equipment.....	8,726	10,078
Undistributed earnings.....	2,947	7,298
Operating lease right-of-use assets.....	6,856	9,877
Goodwill and other intangible assets.....	35,059	23,435
All other.....	4,876	4,813
Total deferred tax liabilities.....	<u>\$ 80,175</u>	<u>\$ 75,371</u>
<b>Assets</b>		
Employee benefit plans.....	\$ 17,199	\$ 22,773
Reserves and accruals.....	7,603	7,708
Deferred income.....	3,521	4,833
Operating lease right-of-use liabilities.....	6,718	9,650
Currency translation losses of foreign subsidiaries.....	2,173	2,173
Local currency exchange losses of foreign subsidiaries.....	450	8,360
Interest rate swap.....	5,178	7,284
All other.....	8,568	7,464
Total deferred tax assets.....	51,410	70,245
Valuation allowance.....	(4,080)	(3,394)
Net deferred tax assets.....	<u>\$ 47,330</u>	<u>\$ 66,851</u>

At March 31, 2021, the Company had no material net operating loss carryforwards in either its domestic or foreign operations.

**Combined Income Tax Expense (Benefit)**

The combined income tax expense (benefit) allocable to continuing operations and other comprehensive income was as follows:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Continuing operations.....	\$ 29,412	\$ 35,288	\$ 41,188
Other comprehensive loss.....	(9,563)	(14,392)	(5,390)
Total.....	<u>\$ 19,849</u>	<u>\$ 20,896</u>	<u>\$ 35,798</u>

**UNIVERSAL CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Uncertain Tax Positions**

A reconciliation of the beginning and ending balance of the gross liability for uncertain tax positions is as follows:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Liability for uncertain tax positions, beginning of year.....	\$ 2,377	\$ 5,625	\$ 3,673
Additions:			
Related to tax positions for the current year.....	49	1,746	85
Related to tax positions for prior years.....	—	4,369	2,169
Reductions:			
Due to lapses of statutes of limitations.....	(135)	(81)	(90)
Due to tax settlements.....	—	(8,948)	—
Effect of currency rate changes.....	146	(334)	(212)
Liability for uncertain tax positions, end of year.....	<u>\$ 2,437</u>	<u>\$ 2,377</u>	<u>\$ 5,625</u>

Of the total liability for uncertain tax positions at March 31, 2021, approximately \$2.4 million could have an effect on the consolidated effective tax rate if the tax benefits are recognized. The liability for uncertain tax positions includes \$0.1 million related to tax positions for which it is reasonably possible that the amounts could change significantly before March 31, 2022. This amount reflects a possible decrease in the liability for uncertain tax positions that could result from the completion and resolution of tax audits and the expiration of open tax years in various tax jurisdictions. During fiscal year 2020, the Company resolved a transfer pricing matter related to a foreign subsidiary. The settlement in fiscal year 2020 represents the resolution of a tax matter with a local country taxing authority that resulted in a \$8.9 million settlement of which \$4.5 million was accrued in prior fiscal years.

For the fiscal year ended March 31, 2021, the Company recognized \$1.8 million as a component of interest expense related to a settlement of an uncertain tax position at a foreign subsidiary. Amounts accrued or reversed for interest were not material for fiscal years 2020 or 2019. Amounts accrued or reversed for penalties were not material for fiscal years 2019 through 2021, and liabilities recorded for interest and penalties at March 31, 2021 and 2020 also were not material.

Universal and its subsidiaries file a U.S. federal consolidated income tax return, as well as returns in several U.S. states and a number of foreign jurisdictions. As of March 31, 2021, the Company's earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2017. Open tax years in U.S. federal, state and foreign jurisdictions range from 3 to 6 years.

**NOTE 7. GOODWILL AND OTHER INTANGIBLES**

The Company's changes in goodwill at March 31, 2021 and 2020 consisted of the following:

<b>(in thousands)</b>	<b>Fiscal Year Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of year.....	\$ 126,826	\$ 97,907
Acquisition of business <sup>(1)(2)</sup> .....	46,144	28,863
Foreign currency translation adjustment.....	81	56
Balance at end of year.....	<u>\$ 173,051</u>	<u>\$ 126,826</u>

<sup>(1)</sup> On January 1, 2020 the Company acquired 100% of the capital stock of FruitSmart for approximately \$80 million in cash and up to \$25 million of contingent consideration payments. The FruitSmart acquisition resulted in \$28.9 million of goodwill. See Note 2 for additional information.

<sup>(2)</sup> On October 1, 2020 the Company acquired 100% of the capital stock of Silva for approximately \$164.0 million in cash and \$5.9 million of working capital on-hand at the date of acquisition. The Silva acquisition resulted in \$46.1 million of goodwill. See Note 2 for additional information.

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**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company's intangible assets primarily consist of capitalized customer-related intangibles, trade names, proprietary developed technology and noncompetition agreements. The Company's intangible assets subject to amortization consisted of the following at March 31, 2021 and 2020:

(in thousands, except useful life)	Fiscal Year Ended March 31,						
	Useful Life (Years)	2021			2020		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships <sup>(1)(2)</sup>	11 - 13	\$ 62,500	\$ (3,323)	\$ 59,177	\$ 9,500	\$ (183)	\$ 9,317
Trade names <sup>(1)(2)</sup>	5	11,100	(1,605)	9,495	3,300	(165)	3,135
Developed technology <sup>(1)</sup>	3	4,800	(2,000)	2,800	4,800	(400)	4,400
Noncompetition agreements <sup>(1)</sup>	5	1,000	(250)	750	1,000	(50)	950
Other	5	760	(678)	82	657	(598)	59
Total intangible assets		<u>\$ 80,160</u>	<u>\$ (7,856)</u>	<u>\$ 72,304</u>	<u>\$ 19,257</u>	<u>\$ (1,396)</u>	<u>\$ 17,861</u>

(1) The FruitSmart acquisition resulted in \$18.6 million of intangibles. See Note 2 for additional information.

(2) The Silva acquisition resulted in \$60.8 million of intangibles. See Note 2 for additional information.

Intangible assets are amortized on a straight-line basis over the asset's estimated useful economic life as noted above.

The Company's amortization expense for intangible assets for the years ended March 31, 2021 and 2020:

(in thousands)	Fiscal Year Ended March 31,	
	2021	2020
	Amortization Expense	<u>\$ 6,424</u>

Amortization expense for the developed technology intangible asset is recorded in cost of goods sold in the consolidated income statements of income. The amortization expense for the other intangible assets is recorded in selling, general, and administrative expenses in the consolidated income statements of income.

As of March 31, 2021, the expected future amortization expense for intangible assets is as follows:

Fiscal Year	
2022	\$ 9,608
2023	9,212
2024	7,969
2025	8,534
2026 and thereafter	36,981
Total expected future amortization expense	<u>\$ 72,304</u>

**NOTE 8. CREDIT FACILITIES**

**Bank Credit Agreement**

On December 20, 2018, the Company entered into a senior unsecured bank credit agreement that included a \$430 million five-year revolving credit facility (expiring December 20, 2023), a \$150 million five-year term loan (due December 20, 2023), and a \$220 million seven-year term loan (due December 20, 2025). On December 17, 2020, the Company converted \$150 million from the balance in the revolving credit facility into the existing term loans, splitting the balance equally between them. Additional information related to the term loans is provided in Note 9. Borrowings under the revolving credit facility bear interest at a variable rate based on either (1) LIBOR plus a margin that is based on the Company's credit measures or (2) the higher of the federal funds rate plus 0.5%, prime rate, or one-month LIBOR plus 1.0%, each plus a margin. In addition to interest, the Company pays a facility fee on the revolving credit facility. No amounts were outstanding under the revolving credit facility at March 31, 2021. The credit agreement provides for an expansion of the facility under certain conditions to allow additional borrowings of up to \$200 million. The credit agreement includes financial covenants that require the Company to maintain a

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minimum level of tangible net worth and observe limits on debt levels. The Company was in compliance with those covenants at March 31, 2021.

**Short-Term Credit Facilities**

The Company maintains short-term uncommitted lines of credit in the United States and in a number of foreign countries. Foreign borrowings are generally in the form of overdraft facilities at rates competitive in the countries in which the Company operates. Generally, each foreign line is available only for borrowings related to operations of a specific country. As of March 31, 2021 and 2020, approximately \$101 million and \$78 million, respectively, were outstanding under these uncommitted lines of credit. The weighted-average interest rates on short-term borrowings outstanding was 4.2% as of both March 31, 2021 and 2020. At March 31, 2021, the Company and its consolidated affiliates had unused uncommitted lines of credit totaling approximately \$172 million.

**NOTE 9. LONG-TERM DEBT**

The Company's long-term debt at March 31, 2021 and 2020 consisted of the following:

	March 31,	
	2021	2020
Senior bank term loans.....	\$ 520,000	\$ 370,000
Less: current portion.....	—	—
Less: unamortized debt issuance costs.....	(1,828)	(1,236)
Long-term debt.....	<u>\$ 518,172</u>	<u>\$ 368,764</u>

As discussed in Note 8, on December 20, 2018, the Company entered into a bank credit agreement. The credit agreement includes a five-year term loan maturing in December 2023 and a seven-year term loan maturing in December 2025. At inception, the five-year and seven-year term loans had balances of \$150 million and \$220 million, respectively. On December 17, 2020, the Company converted \$150 million from the balance in the revolving credit facility, split equally between the two term loans. Both term loans were fully funded at closing, require no amortization, and are prepayable without penalty prior to maturity. Under the credit agreement, both term loans bear interest at variable rates plus a margin based on the Company's credit measures. Interest payments on the additional \$150 million of new term loans in fiscal year 2021 remain unhedged at March 31, 2021.

As discussed in Note 11, the Company had receive-floating/pay-fixed interest rate swap agreements in place with respect to prior loans that were initially designated and carried over to hedge the variable interest payments on the new loans. Those swap agreements were subsequently terminated in February 2019 and concurrently replaced with new interest rate swap agreements that convert the variable benchmark rate to a fixed rate through December 20, 2023 for the five-year term loan and through December 20, 2025 for the seven-year term loan. The proceeds received for the fair value of the terminated interest rate swap agreements, approximately \$5.4 million, is being amortized from accumulated other comprehensive income into earnings as a reduction of interest expense through their original maturity dates. At March 31, 2021, \$1.1 million remains to be amortized into interest expense. With the swap agreements in place, the effective interest rates on the original \$150 million five-year loan balance and the original \$220 million seven-year loan balance were 3.94% and 4.26% at March 31, 2021, respectively. The weighted average effective interest rates, when taking into consideration both the hedged and unhedged interest payments for all outstanding long-term debt, were 3.72% and 4.09% at March 31, 2021 for the five-year and seven-year term loans, respectively. Changes in the effective interest rates could result from a change in interest rates on the unhedged interest payments or a change in the Company's credit measures that impact the applicable credit spreads specified in the underlying loan agreement.

Disclosures about the fair value of long-term debt are provided in Note 12.

**Shelf Registration**

In November 2020, the Company filed an undenominated automatic universal shelf registration statement with the U.S. Securities and Exchange Commission to provide for the future issuance of an undefined amount of additional debt or equity securities as determined by the Company and offered in one or more prospectus supplements prior to issuance.

**NOTE 10. LEASES**

The Company, as a lessee, enters into operating leases for land, buildings, equipment, and vehicles. For all operating leases with terms greater than 12 months and with fixed payment arrangements, a lease liability and corresponding right-of-use asset are recognized in the balance sheet for the term of the lease by calculating the net present value of future lease payments.

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On the date of lease commencement, the present value of lease liabilities is determined by discounting the future lease payments by the Company's collateralized incremental borrowing rate, adjusted for the lease term and currency of the lease payments. If a lease contains a renewal option that the Company is reasonably certain to exercise, the Company accounts for the original lease term and expected renewal term in the calculation of the lease liability and right-of-use asset.

The following table sets forth the right-of-use assets and lease liabilities for operating leases included in the Company's consolidated balance sheet:

<b>(in thousands)</b>	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Assets</b>		
Operating lease right-of-use assets .....	\$ 31,230	\$ 39,256
<b>Liabilities</b>		
Current portion of operating lease liabilities .....	\$ 7,898	\$ 9,823
Long-term operating lease liabilities .....	19,725	25,893
Total operating lease liabilities .....	<u>\$ 27,623</u>	<u>\$ 35,716</u>

The following table sets forth the location and amount of operating lease costs included in the Company's consolidated statement of income:

<b>(in thousands)</b>	<b>Fiscal Year Ended March 31, 2021</b>	<b>Fiscal Year Ended March 31, 2020</b>
<b>Income Statement Location</b>		
Cost of goods sold .....	\$ 12,903	\$ 10,954
Selling, general, and administrative expenses .....	9,408	8,574
Total operating lease costs <sup>(1)</sup> .....	<u>\$ 22,311</u>	<u>\$ 19,528</u>

<sup>(1)</sup> Includes variable operating lease costs.

For the fiscal year ended March 31, 2019, the Company recorded \$17.3 million of total expense for operating leases.

The following table reconciles the undiscounted cash flows to the operating lease liabilities in the Company's consolidated balance sheet:

<b>(in thousands)</b>	<b>March 31, 2021</b>
<b>Maturity of Operating Lease Liabilities</b>	
2022 .....	\$ 8,743
2023 .....	6,371
2024 .....	4,723
2025 .....	3,793
2026 .....	2,396
2027 and thereafter .....	5,290
Total undiscounted cash flows for operating leases .....	\$ 31,316
Less: Imputed interest .....	(3,693)
Total operating lease liabilities .....	<u>\$ 27,623</u>

As of March 31, 2021, the Company had entered into no additional operating leases that have not yet commenced.

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The following table sets forth supplemental information related to operating leases:

(in thousands, except lease term and incremental borrowing rate)	Fiscal Year Ended March 31,	
	2021	2020
<b>Supplemental Cash Flow Information</b>		
Cash paid for amounts included in the measurement of operating lease liabilities .....	\$ 12,855	\$ 11,983
Right-of-use assets obtained in exchange for new operating leases .....	10,970	14,957
<b>Weighted Average Remaining Lease Term (years)</b>	5.57	5.61
<b>Weighted Average Collateralized Incremental Borrowing Rate</b>	4.05 %	4.10 %

**NOTE 11. DERIVATIVES AND HEDGING ACTIVITIES**

Universal is exposed to various risks in its worldwide operations and uses derivative financial instruments to manage two specific types of risks – interest rate risk and foreign currency exchange rate risk. Interest rate risk has been managed by entering into interest rate swap agreements, and foreign currency exchange rate risk has been managed by entering into forward foreign currency exchange and option contracts. However, the Company’s policy also permits other types of derivative instruments. In addition, foreign currency exchange rate risk is also managed through strategies that do not involve derivative instruments, such as using local borrowings and other approaches to minimize net monetary positions in non-functional currencies. The disclosures below provide additional information about the Company’s hedging strategies, the derivative instruments used, and the effects of these activities on the consolidated statements of income and comprehensive income and the consolidated balance sheets. In the consolidated statements of cash flows, the cash flows associated with all of these activities are reported in net cash provided by operating activities.

*Cash Flow Hedging Strategy for Interest Rate Risk*

In February 2019, the Company entered into receive-floating/pay-fixed interest rate swap agreements that were designated and qualify as hedges of the exposure to changes in interest payment cash flows created by fluctuations in variable interest rates on two outstanding non-amortizing bank term loans that were funded as part of a new bank credit facility in December 2018. Although no significant ineffectiveness is expected with this hedging strategy, the effectiveness of the interest rate swaps is evaluated on a quarterly basis. At March 31, 2021, the total notional amount of the interest rate swaps was \$370 million, which corresponded with the former original outstanding balance of the term loans. During the third quarter of fiscal year 2021, the Company converted \$150 million from the balance in its revolving credit line into the existing term loans, splitting the balance equally between them. At March 31, 2021, the Company is not hedging the interest payments on the additional \$150 million of term loans. The increase to the principal balance of the term loans does not have an impact on the effectiveness analysis of the interest rate swap agreements.

Previously, the Company had receive-floating/pay-fixed interest rate swap agreements that were designated and qualified as cash flow hedges for two outstanding non-amortizing bank loans that were repaid concurrent with closing on the new bank credit facility. Those swap agreements were subsequently terminated in February 2019 concurrent with the inception of the new swap agreements. The fair value of the previous swap agreements, approximately \$5.4 million, was received from the counterparties upon termination and is being amortized from accumulated other comprehensive loss into earnings as a reduction of interest expense through the original maturity dates of those agreements. As of March 31, 2021, \$1.1 million remained in accumulated other comprehensive loss to be amortized through December 31, 2021.

*Cash Flow Hedging Strategy for Foreign Currency Exchange Rate Risk Related to Forecast Purchases of Tobacco, Tobacco Processing Costs, and Crop Input Sales*

The majority of the tobacco production in most countries outside the United States where Universal operates is sold in export markets at prices denominated in U.S. dollars. However, sales of crop inputs (such as seeds and fertilizers) to farmers, purchases of tobacco from farmers and most processing costs (such as labor and energy) in those countries are usually denominated in the local currency. Changes in exchange rates between the U.S. dollar and the local currencies where tobacco is grown and processed affect the ultimate U.S. dollar sales of crop inputs and cost of processed tobacco. From time to time, the Company enters into forward and option contracts to buy U.S. dollars and sell the local currency at future dates that coincide with the sale of crop inputs to farmers. In the case of forecast purchases of tobacco and the related processing costs, the Company enters into forward and option contracts to sell U.S. dollars and buy the local currency at future dates that coincide with the expected timing of a portion of the tobacco purchases and processing costs. These strategies offset the variability of future U.S.



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dollar cash flows for sales of crop inputs, tobacco purchases, and processing costs for the foreign currency notional amount hedged. These hedging strategies have been used mainly for tobacco purchases, processing costs, and sales of crop inputs in Brazil, although the Company has also entered into hedges for a portion of the tobacco purchases in Africa.

The aggregate U.S. dollar notional amount of forward and option contracts entered for these purposes during fiscal years 2021, 2020, and 2019 was as follows:

(in millions)	Fiscal Year Ended March 31,		
	2021	2020	2019
Tobacco purchases.....	\$ 101.3	\$ 123.2	\$ 76.9
Processing costs.....	27.8	35.1	19.8
Crop input sales.....	23.5	21.7	—
Total.....	<u>\$ 152.6</u>	<u>\$ 180.0</u>	<u>\$ 96.7</u>

Variations in exchange rates and in the amount and timing of fixed-price orders from customers for their purchases from individual crop years routinely cause variations in the U.S. dollar notional amount of forward contracts entered into from one year to the next. All contracts related to tobacco purchases and 2021 crop year input sales were designated and qualified as hedges of the future cash flows associated with the forecast purchases of tobacco. As a result, changes in fair values of the forward contracts have been recognized in comprehensive income as they occurred, but only recognized in earnings upon sale of the related tobacco to third-party customers.

Forward contracts related to processing costs have not been designated as hedges, and gains and losses on those contracts have been recognized in earnings on a marked-to-market basis. In fiscal year 2020, option contracts entered for the sale of 2020 crop year input sales were not designated for hedge accounting. The gains and losses for the 2020 crop year option contracts entered into for the sale of crop inputs were recognized in earnings on a marked-to-market basis.

For the remaining hedge gains and losses related to 2020 crops recorded in accumulated other comprehensive loss at March 31, 2021, the Company expects to complete the sale of the tobacco and recognize the amounts in earnings during fiscal year 2022. At March 31, 2021, all hedged forecast purchases of tobacco and crop input sales not yet completed remained probable of occurring within the originally designated time period and, as a result, no hedges had been discontinued. Purchases of the 2021 crops in Brazil and Africa are expected to be completed by August 2021, and all forward contracts to hedge those purchases will mature and be settled by that time. Purchases of the 2022 crops in Brazil are expected to be completed by August 2022 and all forward contracts to hedge those purchases will mature and be settled by that time.

*Hedging Strategy for Foreign Currency Exchange Rate Risk Related to Net Local Currency Monetary Assets and Liabilities of Foreign Subsidiaries*

Most of the Company's foreign subsidiaries transact the majority of their sales in U.S. dollars and finance the majority of their operating requirements with U.S. dollar borrowings, and therefore use the U.S. dollar as their functional currency. These subsidiaries normally have certain monetary assets and liabilities on their balance sheets that are denominated in the local currency. Those assets and liabilities can include cash and cash equivalents, accounts receivable and accounts payable, advances to farmers and suppliers, deferred income tax assets and liabilities, recoverable value-added taxes, operating lease liabilities, and other items. Net monetary assets and liabilities denominated in the local currency are remeasured into U.S. dollars each reporting period, generating gains and losses that the Company records in earnings as a component of selling, general, and administrative expenses. The level of net monetary assets or liabilities denominated in the local currency normally fluctuates throughout the year based on the operating cycle, but it is most common for monetary assets to exceed monetary liabilities, sometimes by a significant amount. When this situation exists and the local currency weakens against the U.S. dollar, remeasurement losses are generated. Conversely, remeasurement gains are generated on a net monetary asset position when the local currency strengthens against the U.S. dollar. To manage a portion of its exposure to currency remeasurement gains and losses, the Company enters into forward contracts to buy or sell the local currency at future dates coinciding with expected changes in the overall net local currency monetary asset position of the subsidiary. Gains and losses on the forward contracts are recorded in earnings as a component of selling, general, and administrative expenses for each reporting period as they occur, and thus directly offset the related remeasurement losses or gains in the consolidated statements of income for the notional amount hedged. The Company does not designate these contracts as hedges for accounting purposes. The contracts are generally arranged to hedge the subsidiary's projected exposure to currency remeasurement risk for specified periods of time, and new contracts are entered as necessary throughout the year to replace previous contracts as they mature. The Company is currently using forward currency contracts to manage its exposure to currency remeasurement risk in Brazil. The total notional amounts of contracts outstanding at March 31, 2021 and 2020, were approximately \$16.6 million and \$8.9 million, respectively. To further mitigate currency remeasurement

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exposure, the Company’s foreign subsidiaries may utilize short-term local currency financing during certain periods. This strategy, while not involving the use of derivative instruments, is intended to minimize the subsidiary’s net monetary position by financing a portion of the local currency monetary assets with local currency monetary liabilities, thus hedging a portion of the overall position.

Several of the Company’s foreign subsidiaries transact the majority of their sales and finance the majority of their operating requirements in their local currency, and therefore use their respective local currencies as the functional currency for reporting purposes. From time to time, these subsidiaries sell tobacco to customers in transactions that are not denominated in the functional currency. In those situations, the subsidiaries routinely enter into forward exchange contracts to offset currency risk for the period of time that a fixed-price order and the related trade account receivable are outstanding with the customer. The contracts are not designated as hedges for accounting purposes.

*Effect of Derivative Financial Instruments on the Consolidated Statements of Income*

The table below outlines the effects of the Company’s use of derivative financial instruments on the consolidated statements of income for the fiscal years ended March 31, 2021, 2020, and 2019.

	Fiscal Year Ended March 31,		
	2021	2020	2019
<b>Cash Flow Hedges - Interest Rate Swap Agreements</b>			
Derivative			
Effective Portion of Hedge			
Gain (loss) recorded in accumulated other comprehensive loss .....	\$ 3,033	\$ (32,389)	\$ (7,496)
Gain (loss) reclassified from accumulated other comprehensive loss into earnings .....	\$ (8,411)	\$ (1,577)	\$ 1,689
Gain on terminated interest rate swaps amortized from accumulated other comprehensive loss into earnings .....	\$ 1,416	\$ 2,691	\$ 260
Location of gain (loss) reclassified from accumulated other comprehensive loss into earnings .....	Interest expense		
Ineffective Portion of Hedge			
Gain (loss) recognized in earnings .....	\$ —	\$ —	\$ —
Location of gain (loss) recognized in earnings .....	Selling, general and administrative expenses		
Hedged Item			
Description of hedged item .....	Floating rate interest payments on term loans		
<b>Cash Flow Hedges - Forward Foreign Currency Exchange Contracts</b>			
Derivative			
Effective Portion of Hedge			
Gain (loss) recorded in accumulated other comprehensive loss .....	\$ (272)	\$ (13,646)	\$ (2,623)
Gain (loss) reclassified from accumulated other comprehensive loss into earnings .....	\$ (13,926)	\$ 1,108	\$ (3,034)
Location of gain (loss) reclassified from accumulated other comprehensive loss into earnings .....	Cost of goods sold		
Ineffective Portion and Early De-designation of Hedges			
Gain (loss) recognized in earnings .....	\$ —	\$ —	\$ —
Location of gain (loss) recognized in earnings .....	Selling, general and administrative expenses		
Hedged Item			
Description of hedged item .....	Forecast purchases of tobacco in Brazil and Africa		
<b>Derivatives Not Designated as Hedges - Forward Foreign Currency Exchange Contracts</b>			
Gain (loss) recognized in earnings .....	\$ (872)	\$ (4,013)	\$ (4,671)
Location of gain (loss) recognized in earnings .....	Selling, general and administrative expenses		

For the outstanding interest rate swap agreements, the effective portion of the gain or loss on the derivative is recorded in accumulated other comprehensive loss and any ineffective portion is recorded in selling, general and administrative expenses. For the terminated interest rates swaps previously designated as cash flow hedges, a \$1.1 million net realized hedge gain remained in

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accumulated other comprehensive loss at March 31, 2021. The Company expects to amortize the remaining unamortized gain into earnings as a reduction of interest expense in fiscal year 2022.

For the forward foreign currency exchange contracts designated as cash flow hedges of tobacco purchases in Brazil and Africa, as well as the crop input sales in Brazil, a net hedge loss of approximately \$0.8 million remained in accumulated other comprehensive loss at March 31, 2021. That balance reflects gains and losses on contracts related to the 2020, 2021, and 2022 Brazil crops, the 2021 Africa crop, and the 2021 Brazil crop input sales, less the amounts reclassified to earnings related to tobacco sold through March 31, 2021. The remaining balance in accumulated other comprehensive loss associated with the 2020 and 2021 Brazil crop purchase hedges, along with the balances associated with the 2021 Brazil crop input sales and the 2021 Africa crops are expected to be recognized in earnings as a component of cost of goods sold in fiscal year 2022 as those tobaccos are sold to customers. The balance in accumulated other comprehensive loss related to the 2022 Brazil crop is expected to be recognized in earnings as a component of cost of goods sold in fiscal year 2023 when those tobaccos are sold to customers. Based on the hedging strategy, as the gain or loss is recognized in earnings, it is expected to be offset by a change in the direct cost for the tobacco or by a change in sales prices if the strategy has been mandated by the customer. Generally, margins on the sale of the tobacco will not be significantly affected.

*Effect of Derivative Financial Instruments on the Consolidated Balance Sheets*

The table below outlines the effects of the Company's derivative financial instruments on the consolidated balance sheets at March 31, 2021 and 2020:

	Derivatives in a Fair Value Asset Position			Derivatives in a Fair Value Liability Position		
	Balance Sheet Location	Fair Value as of March 31,		Balance Sheet Location	Fair Value as of March 31,	
		2021	2020		2021	2020
<b>Derivatives Designated as Hedging Instruments</b>						
Interest rate swap agreements	Other non-current assets	\$ —	\$ —	Other long-term liabilities	\$ 25,719	\$ 37,163
Forward foreign currency exchange contracts	Other current assets	1,137	—	Accounts payable and accrued expenses	1,031	11,467
Total		<u>\$ 1,137</u>	<u>\$ —</u>		<u>\$ 26,750</u>	<u>\$ 48,630</u>
<b>Derivatives Not Designated as Hedging Instruments</b>						
Forward foreign currency exchange contracts	Other current assets	\$ 435	\$ 314	Accounts payable and accrued expenses	\$ 791	\$ 4,375
Total		<u>\$ 435</u>	<u>\$ 314</u>		<u>\$ 791</u>	<u>\$ 4,375</u>

Substantially all of the Company's forward foreign currency exchange contracts are subject to master netting arrangements, whereby the right to offset occurs in the event of default by a participating party. The Company has elected to present these contracts on a gross basis in the consolidated balance sheets.

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**NOTE 12. FAIR VALUE MEASUREMENTS**

Universal measures certain financial and nonfinancial assets and liabilities at fair value based on applicable accounting guidance. The financial assets and liabilities measured at fair value include money market funds, trading securities associated with deferred compensation plans, interest rate swap agreements, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers. The application of the fair value guidance to nonfinancial assets and liabilities primarily includes the determination of fair values for goodwill and long-lived assets when indicators of potential impairment are present.

Under the accounting guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value is based on a fair value hierarchy that distinguishes between observable inputs and unobservable inputs. Observable inputs are based on market data obtained from independent sources. Unobservable inputs require the Company to make its own assumptions about the value placed on an asset or liability by market participants because little or no market data exists. There are three levels within the fair value hierarchy.

<b>Level</b>	<b>Description</b>
1	quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date;
2	quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and
3	unobservable inputs for the asset or liability.

As permitted under the accounting guidance, the Company uses net asset value per share ("NAV") as a practical expedient to measure the fair value of its money market funds. The fair values for those funds are presented under the heading "NAV" in the tables that follow in this disclosure. In measuring the fair value of liabilities, the Company considers the risk of non-performance in determining fair value. Universal has not elected to report at fair value any financial instruments or any other assets or liabilities that are not required to be reported at fair value under current accounting guidance.

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**Recurring Fair Value Measurements**

At March 31, 2021 and 2020, the Company had certain financial assets and financial liabilities that were required to be measured and reported at fair value on a recurring basis. These assets and liabilities are listed in the tables below and are classified based on how their values were determined under the fair value hierarchy or the NAV practical expedient:

	<b>March 31, 2021</b>				
	<b>NAV</b>	<b>Fair Value Hierarchy</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>					
Money market funds.....	\$ 1,992	\$ —	\$ —	\$ —	\$ 1,992
Trading securities associated with deferred compensation plans.....	—	15,735	—	—	15,735
Forward foreign currency exchange contracts.....	—	—	1,572	—	1,572
Total financial assets measured and reported at fair value.....	<u>\$ 1,992</u>	<u>\$ 15,735</u>	<u>\$ 1,572</u>	<u>\$ —</u>	<u>\$ 19,299</u>
<b>Liabilities</b>					
Acquisition-related contingent consideration obligations - long-term.....	\$ —	\$ —	\$ —	\$ 2,532	\$ 2,532
Interest rate swap agreements.....	—	—	25,719	—	25,719
Forward foreign currency exchange contracts.....	—	—	1,822	—	1,822
Total financial liabilities measured and reported at fair value.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 27,541</u>	<u>\$ 2,532</u>	<u>\$ 30,073</u>

	<b>March 31, 2020</b>				
	<b>NAV</b>	<b>Fair Value Hierarchy</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>					
Money market funds.....	\$ 4,011	\$ —	\$ —	\$ —	\$ 4,011
Trading securities associated with deferred compensation plans.....	—	12,635	—	—	12,635
Forward foreign currency exchange contracts.....	—	—	314	—	314
Total financial assets measured and reported at fair value.....	<u>\$ 4,011</u>	<u>\$ 12,635</u>	<u>\$ 314</u>	<u>\$ —</u>	<u>\$ 16,960</u>
<b>Liabilities</b>					
Guarantees of bank loans to tobacco growers.....	\$ —	\$ —	\$ —	\$ 103	\$ 103
Acquisition-related contingent consideration obligations - short-term.....	—	—	—	4,173	\$ 4,173
Acquisition-related contingent consideration obligations - long-term.....	—	—	—	2,532	\$ 2,532
Interest rate swap agreements.....	—	—	37,163	—	37,163
Forward foreign currency exchange contracts.....	—	—	15,842	—	15,842
Total financial liabilities measured and reported at fair value.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 53,005</u>	<u>\$ 6,808</u>	<u>\$ 59,813</u>

**Money market funds**

The fair value of money market funds, which are reported in cash and cash equivalents in the consolidated balance sheets, is based on NAV, which is the amount at which the funds are redeemable and is used as a practical expedient for fair value. These funds are not classified in the fair value hierarchy, but are disclosed as part of the fair value table above.

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Trading securities associated with deferred compensation plans

Trading securities represent mutual fund investments that are matched to employee deferred compensation obligations. These investments are bought and sold as employees defer compensation, receive distributions, or make changes in the funds underlying their accounts. Quoted market prices (Level 1) are used to determine the fair values of the mutual funds.

Interest rate swap agreements

The fair values of interest rate swap agreements are determined based on dealer quotes using a discounted cash flow model matched to the contractual terms of each instrument. Since inputs to the model are observable and significant judgment is not required in determining the fair values, interest rate swaps are classified within Level 2 of the fair value hierarchy.

Forward foreign currency exchange contracts

The fair values of forward foreign currency exchange contracts are also determined based on dealer quotes using a discounted cash flow model matched to the contractual terms of each instrument. Since inputs to the model are observable and significant judgment is not required in determining the fair values, forward foreign currency exchange contracts are classified within Level 2 of the fair value hierarchy.

Acquisition-related contingent consideration obligations

The Company estimates the fair value of acquisition-related contingent consideration obligations by applying an income approach model that utilizes probability-weighted discounted cash flows. The Company acquired FruitSmart, Inc. in fiscal year 2020 and recognized a contingent consideration liability of \$6.7 million on the date of acquisition. Each reporting period the Company evaluates the fair value of the acquisition-related contingent consideration obligations. In the quarter ended June 30, 2020, the evaluation resulted in the reduction of \$4.2 million of contingent consideration of the original \$6.7 million liability recorded. Significant judgment is applied to this model and therefore the acquisition-related contingent consideration obligation is classified within Level 3 of the fair value hierarchy.

A reconciliation of the change in the balance of the acquisition-related contingent consideration obligation (Level 3) for the fiscal years ended March 31, 2021 and 2020 is provided below.

	<b>Fiscal Year Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Balance beginning of year .....	\$ 6,705	\$ —
Additions .....	—	6,705
Change in fair value of contingent consideration liability .....	(4,173)	—
Balance at end of year .....	<u>\$ 2,532</u>	<u>\$ 6,705</u>

As of March 31, 2021, \$2.5 million of contingent consideration liability related to the FruitSmart acquisition is included in accounts payable and accrued expenses on the consolidated balance sheet.

Guarantees of bank loans to tobacco growers

The majority of crop financing utilized for fiscal year 2021 in Brazil did not require guaranteed bank loans to tobacco growers, resulting in the elimination of guarantees at March 31, 2021. For the majority of crop financing prior to fiscal year 2021, the Company relied heavily on guaranteed bank loans to tobacco growers in Brazil for crop financing. In the event that the farmers defaulted on their payments to the banks, the Company would be required to perform under the guarantees. The Company regularly evaluated the likelihood of farmer defaults based on an expected loss analysis and records the fair value of its guarantees as an obligation in its consolidated financial statements. The fair value of the guarantees was determined using the expected loss data for all loans outstanding at each measurement date. The present value of the cash flows associated with the estimated losses was then calculated at a risk-adjusted interest rate that was aligned with the expected duration of the liability and included an adjustment for nonperformance risk. This approach is sometimes referred to as the “contingent claims valuation method.” Although historical loss data is an observable input, significant judgment was required in applying this information to the portfolio of guaranteed loans outstanding at each measurement date and in selecting a risk-adjusted interest rate. Significant increases or decreases in the risk-adjusted interest rate may result in a significantly higher or lower fair value measurement. The guarantees of bank loans to tobacco growers were therefore classified within Level 3 of the fair value hierarchy.

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A reconciliation of the change in the balance of the financial liability for guarantees of bank loans to tobacco growers (Level 3) for the fiscal years ended March 31, 2021 and 2020 is provided below.

	<b>Fiscal Year Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of year .....	\$ 103	\$ 803
Payments under the guarantees and transfers to allowance for loss on direct loans to farmers (removal of prior crop year loans from the portfolio) .....	(96)	(659)
Provision for loss or transfers from allowance for loss on direct loans to farmers (addition of current crop year loans) .....	—	(5)
Change in discount rate and estimated collection period .....	(2)	(7)
Currency remeasurement .....	(5)	(29)
Balance at end of year .....	<u>\$ —</u>	<u>\$ 103</u>

**Long-term Debt**

The following table summarizes the fair and carrying value of the Company’s long-term debt, including the current portion at each of the balance sheet dates March 31, 2021 and 2020:

(in millions of dollars)	<b>Fiscal Year Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Fair market value of long term obligations	\$ 517	\$ 370
Carrying value of long term obligations	\$ 520	\$ 370

The Company estimates the fair value of its long-term debt using Level 2 inputs which are based upon quoted market prices for the same or similar obligations or on calculations that are based on the current interest rates available to the Company for debt of similar terms and maturities. See Note 9 for more information regarding long-term debt.

**Nonrecurring Fair Value Measurements**

Assets and liabilities that are measured at fair value on a nonrecurring basis primarily relate to long-lived assets, right-of-use operating lease assets and liabilities, goodwill and intangibles, and other current and noncurrent assets. These assets and liabilities fair values are evaluated for impairment when potential indicators of impairment exist. Accordingly, the nonrecurring measurement of the fair value of these assets and liabilities are classified within Level 3 of the fair value hierarchy.

**Acquisition Accounting for Business Combinations**

The Company accounts for acquisitions qualifying under ASC 805, "Business Combinations," which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The fair values of consideration transferred and net assets acquired are determined using a combination of Level 2 and Level 3 inputs as specified in the fair value hierarchy in ASC 820, "Fair Value Measurements and Disclosures." The Company believes that the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. The significant assumptions used in determining the fair value include the discount rate and forecasted results (e.g., revenue growth rates and operating profit margins).

**Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events, changes in business conditions, or other circumstances provide an indication that such assets may be impaired.

***CIFI***

As a result of the announcement of the wind-down of the CIFI operation, an impairment of the related long-lived assets was recorded during the quarter ended December 31, 2020. The long-lived assets primarily consist of buildings, processing equipment, and other manufacturing related assets. The aggregate fair value and carrying value of those assets following the impairment adjustments was approximately \$6 million. The fair values of the property, plant and equipment were principally determined using a market-based approach with consideration of the assets fair values to potential third-parties. Significant judgment was required in estimating the amount and timing of the future cash flows associated with the disposition of the assets.



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*Tanzania*

Due to business changes that affected the leaf tobacco market in Tanzania and the Company's operations there, an impairment charge of the long-lived assets in Tanzania was recorded in fiscal year 2019 to reduce their carrying value to fair value at March 31, 2019. The long-lived assets consist principally of the Company's processing facility and equipment, storage facilities, tobacco buying and receiving stations, employee housing, and vehicles and transportation equipment. The aggregate fair value and carrying value of those assets following the impairment adjustments was approximately \$17 million. The fair values of the property, plant and equipment were determined based principally on a probability-weighting of the discounted cash flows expected under multiple operating and disposition scenarios. Significant judgment was required in estimating the amount and timing of the future cash flows associated with the use and disposition of the assets, as well as the probabilities associated with the respective operating and disposition scenarios.

**NOTE 13. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

**Defined Benefit Plans**

*Description of Plans*

The Company sponsors several defined benefit pension plans covering salaried and certain hourly employees in the U.S., as well as certain foreign and other employee groups. These plans provide retirement benefits based primarily on employee compensation and years of service. Plan assets consist primarily of equity and fixed income investments. The Company also sponsors defined benefit plans that provide postretirement health and life insurance benefits for eligible U.S. employees and retirees who have attained specific age and service levels, although postretirement life insurance benefits were discontinued several years ago for all employees who were not already retired. The health benefits are funded by the Company as the costs of those benefits are incurred. The plan design includes cost-sharing features such as deductibles and coinsurance. The life insurance benefits are funded with deposits to a reserve account held by an insurance company. The Company has the right to amend or discontinue its pension and other postretirement benefit plans at any time.

In the following disclosures, the term “accumulated benefit obligation” (“ABO”) represents the actuarial present value of estimated future benefit payments earned by participants in the Company's defined benefit pension plans as of the balance sheet date without regard to the estimated effect of future compensation increases on those benefits. The term does not apply to other postretirement benefits. “Projected benefit obligation” refers to the projected benefit obligation (“PBO”) for pension benefits and the accumulated postretirement benefit obligation (“APBO”) for other postretirement benefits. These amounts represent the actuarial present value of estimated future benefit payments earned by participants in the benefit plans as of the balance sheet date. For pension benefits, the projected benefit obligation includes the estimated effect of future compensation increases on those benefits.

*Actuarial Assumptions*

Assumptions used for financial reporting purposes to compute net periodic benefit cost and benefit obligations for the Company's primary defined benefit plans were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
Discount rates:						
Benefit cost for plan year.....	3.60 %	4.00 %	4.10 %	3.40 %	3.80 %	3.90 %
Benefit obligation at end of plan year.....	3.30 %	3.60 %	4.00 %	2.90 %	3.40 %	3.80 %
Expected long-term return on plan assets:						
Benefit cost for plan year.....	6.00 %	6.75 %	6.75 %	3.00 %	3.00 %	3.00 %
Salary scale:						
Benefit cost for plan year.....	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %
Benefit obligation at end of plan year.....	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %
Healthcare cost trend rate.....	N/A	N/A	N/A	6.17 %	7.34 %	7.60 %

Changes in the discount rates in the above table reflect prevailing market interest rates at the end of each fiscal year when the benefit obligations are actuarially measured. The expected long-term return on plan assets is developed from financial models used to project future returns on the underlying assets of the funded plans and is reviewed on an annual basis. The healthcare cost trend rate used by the Company is based on a study of medical cost inflation rates that is reviewed and updated annually for

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continued applicability. The revised trend assumption of 6.17% in 2021 declines gradually to 4.44% in 2029. The Company has caps in place on postretirement medical benefits that limit its cost for a large segment of the retiree population. As a result, changes to the healthcare cost trend rate have a limited impact on the postretirement medical plan liability and expense.

*Benefit Obligations, Plan Assets, and Funded Status*

The following table reflects the changes in benefit obligations and plan assets in fiscal years 2021 and 2020, as well as the funded status of the plans at March 31, 2021 and 2020:

	Pension Benefits		Other Postretirement Benefits	
	March 31,		March 31,	
	2021	2020	2021	2020
<b>Actuarial present value of benefit obligation:</b>				
Accumulated benefit obligation.....	\$ 289,901	\$ 281,242		
Projected benefit obligation.....	297,090	287,082	\$ 28,926	\$ 30,282
<b>Change in projected benefit obligation:</b>				
Projected benefit obligation, beginning of year.....	\$ 287,082	\$ 278,189	\$ 30,282	\$ 31,635
Service cost.....	6,618	5,990	172	199
Interest cost.....	9,571	10,747	1,141	1,306
Effect of discount rate change.....	12,990	14,479	1,126	1,326
Foreign currency exchange rate changes.....	776	(1,477)	(283)	(1,012)
Settlements.....	—	(6,038)	—	—
Other.....	(3,626)	1,029	167	(744)
Benefit payments.....	(16,321)	(15,837)	(3,679)	(2,428)
Projected benefit obligation, end of year.....	<u>\$ 297,090</u>	<u>\$ 287,082</u>	<u>\$ 28,926</u>	<u>\$ 30,282</u>
<b>Change in plan assets:</b>				
Plan assets at fair value, beginning of year.....	\$ 238,450	\$ 244,969	\$ 3,369	\$ 3,717
Actual return on plan assets.....	39,757	10,551	114	152
Employer contributions.....	8,472	6,037	3,229	1,928
Settlements.....	—	(6,038)	—	—
Foreign currency exchange rate changes.....	(9)	(1,232)	—	—
Benefit payments.....	(16,321)	(15,837)	(3,679)	(2,428)
Plan assets at fair value, end of year.....	<u>\$ 270,349</u>	<u>\$ 238,450</u>	<u>\$ 3,033</u>	<u>\$ 3,369</u>
<b>Funded status:</b>				
Funded status of the plans, end of year.....	<u>\$ (26,741)</u>	<u>\$ (48,632)</u>	<u>\$ (25,893)</u>	<u>\$ (26,913)</u>

The Company funds its non-regulated U.S. pension plan, one of its foreign pension plans, and its postretirement medical plans on a pay-as-you-go basis as the benefit payments are incurred. The unfunded projected benefit obligation for those pension plans and postretirement benefit plans was \$38.1 million and \$23.7 million, respectively, at March 31, 2021.

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The funded status of the Company’s plans at the end of fiscal years 2021 and 2020 was reported in the consolidated balance sheets as follows:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Noncurrent assets (included in Pension asset and other noncurrent assets).....	\$ 11,950	\$ 346	\$ —	\$ —
Current liability (included in Accounts payable and accrued expenses).....	(4,896)	(2,978)	(2,051)	(2,233)
Noncurrent liability (reported as pensions and other postretirement benefits) ..	(33,795)	(46,000)	(23,842)	(24,680)
Amounts recognized in the consolidated balance sheets.....	<u>\$ (26,741)</u>	<u>\$ (48,632)</u>	<u>\$ (25,893)</u>	<u>\$ (26,913)</u>

Additional information on the funded status of the Company’s plans as of the respective measurement dates for the fiscal years ended March 31, 2021 and 2020, is as follows:

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>For plans with a projected benefit obligation in excess of plan assets:</b>				
Aggregate projected benefit obligation (PBO).....	\$ 44,742	\$ 284,327	\$ 28,926	\$ 30,282
Aggregate fair value of plan assets.....	6,051	235,349	3,033	3,369
<b>For plans with an accumulated benefit obligation in excess of plan assets:</b>				
Aggregate accumulated benefit obligation (ABO).....	42,923	278,515	N/A	N/A
Aggregate fair value of plan assets.....	6,051	235,349	N/A	N/A

*Net Periodic Benefit Cost*

The components of the Company’s net periodic benefit cost were as follows:

	<b>Pension Benefits</b>			<b>Other Postretirement Benefits</b>		
	<b>Fiscal Year Ended March 31,</b>			<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ 6,618	\$ 5,990	\$ 6,008	\$ 172	\$ 199	\$ 222
Interest cost.....	9,571	10,747	10,810	1,141	1,306	1,371
Expected return on plan assets.....	(14,448)	(16,671)	(15,695)	(96)	(106)	(99)
Settlement cost.....	—	676	—	—	—	—
Net amortization and deferral.....	4,863	3,709	3,491	(591)	(647)	(710)
Net periodic benefit cost.....	<u>\$ 6,604</u>	<u>\$ 4,451</u>	<u>\$ 4,614</u>	<u>\$ 626</u>	<u>\$ 752</u>	<u>\$ 784</u>

A one-percentage-point increase or decrease in the assumed healthcare cost trend rate would not result in a significant change to the March 31, 2021 accumulated postretirement benefit obligation or the aggregate service and interest cost components of the net periodic postretirement benefit expense for fiscal year 2022.

*Amounts Included in Accumulated Other Comprehensive Loss*

Amounts included in accumulated other comprehensive loss at the beginning of the year are amortized as a component of net periodic benefit cost during the year. The amounts recognized in other comprehensive income or loss for fiscal years 2021

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and 2020 and the amounts included in accumulated other comprehensive loss at the end of those fiscal years are shown below. All amounts shown are before allocated income taxes.

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Change in net actuarial loss (gain):</b>				
Net actuarial loss (gain), beginning of year.....	\$ 97,025	\$ 81,502	\$ (5,365)	\$ (6,201)
Losses (gains) arising during the year.....	(17,563)	21,838	520	302
Settlement.....	—	(529)	—	—
Amortization included in net periodic benefit cost during the year.....	(6,857)	(5,786)	450	534
Net actuarial loss (gain), end of year.....	<u>72,605</u>	<u>97,025</u>	<u>(4,395)</u>	<u>(5,365)</u>
<b>Change in prior service cost (benefit):</b>				
Prior service cost (benefit), beginning of year.....	(5,402)	(7,479)	(564)	(766)
Amortization included in net periodic benefit cost during the year.....	1,996	2,077	188	202
Prior service cost (benefit), end of year.....	<u>(3,406)</u>	<u>(5,402)</u>	<u>(376)</u>	<u>(564)</u>
Total amounts in accumulated other comprehensive loss at end of year, before income taxes.....	<u>\$ 69,199</u>	<u>\$ 91,623</u>	<u>\$ (4,771)</u>	<u>\$ (5,929)</u>

Amounts in the above table reflect the Company and its consolidated subsidiaries. The accumulated other comprehensive loss reported in the consolidated balance sheets also includes pension and other postretirement benefit amounts related to ownership interests in unconsolidated affiliates.

The Company expects to recognize approximately \$5.6 million of the March 31, 2021 net actuarial loss and \$2.1 million of the March 31, 2021 prior service benefit in net periodic benefit cost during fiscal year 2022.

*Allocation of Pension Plan Assets*

The Company has established, and periodically adjusts, target asset allocations for its investments in its U.S. ERISA-regulated defined benefit pension plan, which represents 97% of consolidated plan assets and 84% of consolidated PBO at March 31, 2021, to balance the needs of liquidity, total return, and risk control. The assets are required to be diversified across asset classes and investment styles to achieve that balance. During the year, the asset allocation is reviewed for adherence to the target policy and rebalanced to the targeted weights. The Company reviews the expected long-term returns of the asset allocation each year to help determine whether changes are needed. The return is evaluated on a weighted-average basis in relation to inflation. The assumed long-term rate of return used to calculate annual benefit expense is based on the asset allocation and expected market returns for the respective asset classes.

The weighted-average target pension asset allocation and target ranges at the March 31, 2021 measurement date and the actual asset allocations at the March 31, 2021 and 2020 measurement dates by major asset category were as follows:

<b>Major Asset Category</b>	<b>Target Allocation</b>	<b>Range</b>	<b>Actual Allocation</b>	
			<b>March 31,</b>	
			<b>2021</b>	<b>2020</b>
Equity securities.....	29.0 %	19 % - 39%	32.0 %	25.4 %
Fixed income securities <sup>(1)</sup> .....	66.0 %	56 % - 76%	64.1 %	70.3 %
Alternative investments.....	5.0 %	0 % - 10%	3.9 %	4.3 %
Total.....	<u>100.0 %</u>		<u>100.0 %</u>	<u>100.0 %</u>

<sup>(1)</sup> Actual amounts include high yield securities and cash balances held for the payment of benefits.

Universal makes regular contributions to its pension and other postretirement benefit plans. As previously noted, for postretirement health benefits, contributions reflect funding of those benefits as they are incurred. The Company expects to make contributions of approximately \$1.4 million to its ERISA regulated defined benefit pension plan and \$5.9 million to its non-ERISA regulated pension plans in fiscal year 2022.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Estimated future benefit payments to be made from the Company’s plans are as follows:

Fiscal Year	Pension Benefits	Other Postretirement Benefits
2022.....	\$ 19,611	\$ 2,484
2023.....	18,777	2,375
2024.....	18,656	2,265
2025.....	17,979	2,173
2026.....	22,893	2,047
2027 - 2031.....	84,154	8,882

*Fair Values of Pension Plan Assets*

Assets held by the Company's defined benefit pension plans primarily consist of equity securities, fixed income securities, and alternative investments. Equity securities are primarily invested in actively-traded mutual funds with underlying common stock investments in U.S. and foreign companies ranging in size from small to large corporations. Fixed income securities are also held primarily through actively-traded mutual funds with the underlying investments in both U.S. and foreign securities. The methodologies for determining the fair values of the plan assets are outlined below. Where the values are based on quoted prices for the securities in an active market, they are classified as Level 1 of the fair value hierarchy. Where secondary pricing sources are used, they are classified as Level 2 of the hierarchy. Pricing models that use significant unobservable inputs are classified as Level 3.

- Equity securities: Investments in equity securities through actively-traded mutual funds are valued based on the net asset values of the units held in the respective funds, which are determined by obtaining quoted prices on nationally recognized securities exchanges. These securities are classified as Level 1.
- Fixed income securities: Fixed income investments that are held through mutual funds are valued based on the net asset values of the units held in the respective funds, which are determined by obtaining quoted prices on nationally recognized securities exchanges. These securities are classified as Level 1. Other fixed income investments are valued at an estimated price that a dealer would pay for a similar security on the valuation date using observable market inputs and are classified as Level 2. These market inputs may include yield curves for similarly rated securities. Small amounts of cash are held in common collective trusts. Fixed income securities also include insurance assets, which are valued based on an actuarial calculation. Those securities are classified as Level 3.
- Alternative investments: Real estate assets are valued using valuation models that incorporate income and market approaches, including external appraisals, to derive fair values. The hedge fund allocation is a fund of hedge funds and is valued by the manager based on the net asset value of each fund. These models use significant unobservable inputs and are classified as Level 3 within the fair value hierarchy.

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Fair values of the assets of the Company’s pension plans as of March 31, 2021 and 2020, classified based on how their values were determined under the fair value hierarchy are as follows:

	<b>March 31, 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity securities.....	\$ 83,135	\$ —	\$ —	\$ 83,135
Fixed income securities <sup>(1)</sup> .....	168,201	2,920	6,051	177,172
Alternative investments.....	—	—	10,042	10,042
Total investments.....	<u>\$ 251,336</u>	<u>\$ 2,920</u>	<u>\$ 16,093</u>	<u>\$ 270,349</u>

	<b>March 31, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity securities.....	\$ 58,204	\$ —	\$ —	\$ 58,204
Fixed income securities <sup>(1)</sup> .....	162,667	3,101	4,668	170,436
Alternative investments.....	—	—	9,810	9,810
Total investments.....	<u>\$ 220,871</u>	<u>\$ 3,101</u>	<u>\$ 14,478</u>	<u>\$ 238,450</u>

<sup>(1)</sup> Includes high yield securities and cash and cash equivalent balances.

**Other Benefit Plans**

Universal and several subsidiaries offer employer defined contribution savings plans. Amounts charged to expense for these plans were approximately \$2.9 million for fiscal year 2021, \$2.7 million for fiscal year 2020, and \$2.6 million for fiscal year 2019.

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**NOTE 14. COMMON AND PREFERRED STOCK**

**Common Stock**

At March 31, 2021, the Company’s shareholders had authorized 100,000,000 shares of its common stock, and 24,514,867 shares were issued and outstanding. Holders of the common stock are entitled to one vote for each share held on all matters requiring a vote. Holders of the common stock are also entitled to receive dividends when, as, and if declared by the Company’s Board of Directors. The Board of Directors customarily declares and pays regular quarterly dividends on the outstanding common shares; however, such dividends are at the Board’s full discretion, and there is no obligation to continue them.

**Preferred Stock**

The Company is also authorized to issue up to 5,000,000 shares of preferred stock. No preferred stock was outstanding at March 31, 2021.

**Share Repurchase Programs**

Universal’s Board of Directors has authorized programs to repurchase outstanding shares of the Company’s capital stock (common and preferred stock). Under these programs, the Company has made and may continue to make share repurchases from time to time in the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. Programs have been in place continuously throughout fiscal years 2019 through 2021. The current program, which replaced an expiring program, was authorized and became effective on November 5, 2020. It authorizes the purchase of up to \$100 million of the Company’s outstanding common stock and expires on the earlier of November 15, 2022, or when the funds authorized for the program have been exhausted. At March 31, 2021, the full \$100 million authorization remained available for share repurchases under the current program.

Repurchases of common stock under the programs for fiscal years 2021, 2020, and 2019 were as follows:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Number of shares repurchased.....	—	656,820	30,777
Cost of shares repurchased (in thousands of dollars).....	\$ —	\$ 33,457	\$ 1,443
Weighted-average cost per share.....	\$ —	\$ 50.94	\$ 46.87

**NOTE 15. EXECUTIVE STOCK PLANS AND STOCK-BASED COMPENSATION**

**Executive Stock Plans**

The Company’s shareholders have approved executive stock plans under which officers, directors, and employees of the Company may receive grants and awards of common stock, restricted stock, restricted stock units (“RSUs”), performance share units (“PSUs”), stock appreciation rights (“SARs”), incentive stock options, and non-qualified stock options. Currently, grants are outstanding under the 1997 Executive Stock Plan, the 2002 Executive Stock Plan, the 2007 Stock Incentive Plan, and the 2017 Stock Incentive Plan. Together, these plans are referred to in this disclosure as the “Plans.” Up to 1,000,000 shares may be issued under the 2017 Stock Incentive Plan, with no specific share limit for any of the award types. New awards may no longer be issued under the 1997, 2002, and 2007 Plans.

The Company’s practice is to award grants of stock-based compensation to officers at the first regularly-scheduled meeting of the Compensation Committee of the Board of Directors (the “Compensation Committee”) in the fiscal year following the public release of the Company’s financial results for the prior year. In recent years, the Compensation Committee has awarded only grants of RSUs and PSUs. Outside directors automatically receive restricted stock units following each annual meeting of shareholders.

RSUs awarded under the Plans vest 5 years from the grant date and are then paid out in shares of common stock. Under the terms of the RSU awards, grantees receive dividend equivalents in the form of additional RSUs that vest and are paid out on the same date as the original RSU grant. The PSUs vest 3 years from the grant date, are paid out in shares of common stock at the vesting date, and do not carry rights to dividends or dividend equivalents prior to vesting. Shares ultimately paid out under PSU grants are dependent on the achievement of predetermined performance measures established by the Compensation Committee and can range from zero to 150% of the stated award. RSUs awarded to outside directors prior to fiscal 2020 vest 3 years after the grant date and those granted in fiscal 2020 vest in 1 year. Additionally, restricted stock vests upon the individual’s retirement from service as a director.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*RSUs, Restricted Stock, and PSUs*

The following table summarizes the Company's RSU, restricted stock, and PSU activity for fiscal years 2019 through 2021:

	RSUs		Restricted Stock		PSUs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
<b>Fiscal Year Ended March 31, 2019:</b>						
Unvested at beginning of year.....	336,919	\$ 55.77	30,200	\$ 42.37	151,000	\$ 50.50
Granted.....	87,621	64.53	—	—	54,800	57.12
Vested.....	(99,549)	59.09	(8,950)	44.25	(49,092)	45.06
Forfeited.....	—	—	—	—	(9,834)	45.55
Unvested at end of year.....	324,991	57.12	21,250	42.37	146,874	55.12
<b>Fiscal Year Ended March 31, 2020:</b>						
Granted.....	85,463	56.39	—	—	60,728	50.16
Vested.....	(74,518)	54.20	—	—	(67,402)	49.17
Forfeited.....	—	—	—	—	—	—
Unvested at end of year.....	335,936	57.89	21,250	41.58	140,200	55.73
<b>Fiscal Year Ended March 31, 2021:</b>						
Granted.....	103,829	46.27	—	—	65,135	34.33
Vested.....	(97,297)	54.11	(9,650)	41.24	(40,410)	60.37
Forfeited.....	—	—	—	—	(3,778)	57.83
Unvested at end of year.....	342,468	\$ 55.44	11,600	\$ 41.86	161,147	\$ 46.20

Shares granted and vested in the above table include dividend equivalents on RSUs and any shares awarded above the base grant under the performance provisions of PSUs. Shares forfeited or canceled include any reductions from the base PSU grant under those same performance provisions. The fair values of RSUs, restricted stock, and PSUs are based on the market price of the common stock on the grant date.

**Stock-Based Compensation Expense**

Fair value expense for stock-based compensation is recognized ratably over the period from grant date to the earlier of (1) the vesting date of the award, or (2) the date the grantee is eligible to retire without forfeiting the award. For employees who are already eligible to retire at the date an award is granted, the total fair value of the award is recognized as expense at the date of grant. For the fiscal years ended March 31, 2021, 2020, and 2019, total stock-based compensation expense and the related income tax benefit recognized were as follows:

	Fiscal Year Ended March 31,		
	2021	2020	2019
Total stock-based compensation expense.....	\$ 6,106	\$ 5,631	\$ 8,152
Income tax benefit recorded on stock-based compensation expense.....	\$ 1,282	\$ 1,182	\$ 1,712

At March 31, 2021, the Company had \$4.6 million of unrecognized compensation expense related to stock-based awards, which will be recognized over a weighted-average period of approximately 1.1 years.



**UNIVERSAL CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 16. COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS**

**Commitments**

The Company enters into contracts to purchase tobacco from farmers in a number of the countries where it operates. Contracts in most countries cover one annual growing season. Primarily with the farmer contracts in Brazil, Malawi, Mozambique, the Philippines, Guatemala, and Mexico, the Company provides seasonal financing to support the farmers' production of their crops or guarantees their financing from third-party banks. At March 31, 2021, the Company had contracts to purchase approximately \$442 million of tobacco to be delivered during the coming fiscal year and \$123 million of tobacco to be delivered in subsequent years. These amounts are estimates since actual quantities purchased will depend on crop yields, and prices will depend on the quality of the tobacco delivered and other market factors. Tobacco purchase obligations have been partially funded by short-term advances to farmers and other suppliers, which totaled approximately \$122 million, net of allowances, at March 31, 2021. The Company withholds payments due to farmers on delivery of the tobacco to satisfy repayment of the financing it provided to the farmers. As noted above and discussed in more detail below, the Company also has arrangements to guarantee bank loans to farmers in Brazil, and payments are also withheld on delivery of tobacco to satisfy repayment of those loans. In addition to its contractual obligations to purchase tobacco, the Company had commitments related to agricultural materials, approved capital expenditures, and various other requirements that approximated \$103 million at March 31, 2021.

**Guarantees and Other Contingent Liabilities**

*Guarantees of Bank Loans and Other Contingent Liabilities*

The majority of crop financing utilized for fiscal year 2021 in Brazil did not require guaranteed bank loans to tobacco growers, resulting in the elimination of guarantees at March 31, 2021. For the majority of crop financing prior to fiscal year 2021, the Company relied heavily on guaranteed bank loans to tobacco growers in Brazil for crop financing. Bank guarantees for the Company's operating subsidiary in Brazil normally expire within one year. The subsidiary withheld payments due to the farmers on delivery of tobacco and forwarded those payments to the third-party banks. Failure of farmers to deliver sufficient quantities of tobacco to the subsidiary to cover its obligations to the third-party banks would result in a liability for the subsidiary under the related guarantees; however, in that case, the subsidiary would have recourse against the farmers. The maximum potential amount of future payments that the Company's subsidiary would have been required to make at March 31, 2020, was the face amount (which includes unpaid interest), which was \$3 million. The fair value of the guarantees was a liability of approximately \$0.1 million at March 31, 2020. In addition to these guarantees, the Company has other contingent liabilities totaling approximately \$1 million at March 31, 2021, primarily under outstanding letters of credit.

*Value-Added Tax Assessments in Brazil*

As discussed in Note 1, the Company's local operating subsidiaries pay significant amounts of value-added tax ("VAT") in connection with their normal operations. In Brazil, VAT is assessed at the state level when green tobacco is transferred between states. The Company's operating subsidiary there pays VAT when tobaccos grown in the states of Santa Catarina and Parana are transferred to its factory in the state of Rio Grande do Sul for processing. The subsidiary has received assessments for additional VAT plus interest and penalties from the tax authorities for the states of Santa Catarina and Parana based on audits of the subsidiary's VAT filings for specified periods. In June 2011, tax authorities for the state of Santa Catarina issued assessments for tax, interest, and penalties for periods from 2006 through 2009 totaling approximately \$7 million. In September 2014, tax authorities for the state of Parana issued an assessment for tax, interest, and penalties for periods from 2009 through 2014 totaling approximately \$10 million. These amounts are based on the exchange rate for the Brazilian currency at March 31, 2021. Management of the operating subsidiary and outside counsel believe that errors were made by the tax authorities for both states in determining all or significant portions of these assessments and that various defenses support the subsidiary's positions.

With respect to the Santa Catarina assessments, the subsidiary took appropriate steps to contest the full amount of the claims. As of March 31, 2021, a portion of the subsidiary's arguments had been accepted, and the outstanding assessment had been reduced, although interest on the remaining assessment has continued to accumulate. The reduced assessment, together with the related accumulated interest through the end of the current reporting period, totaled approximately \$8 million at the March 31, 2021 exchange rate. The subsidiary is continuing to contest the full remaining amount of the assessment. While the range of reasonably possible loss is zero up to the full \$8 million remaining assessment, based on the strength of the subsidiary's defenses, no loss within that range is considered probable at this time and no liability has been recorded at March 31, 2021.

With respect to the Parana assessment, management of the subsidiary and outside counsel challenged the full amount of the claim. A significant portion of the Parana assessment was based on positions taken by the tax authorities that management and outside counsel believe deviate significantly from the underlying statutes and relevant case law. In addition, under the law, the subsidiary's tax filings for certain periods covered in the assessment were no longer open to any challenge by the tax authorities. In December 2015, the Parana tax authorities withdrew the initial claim and subsequently issued a new assessment

**UNIVERSAL CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

covering the same tax periods. The new assessment totaled approximately \$3 million at the March 31, 2021 exchange rate, reflecting a substantial reduction from the original \$10 million assessment. Notwithstanding the reduction, management and outside counsel continue to believe that the new assessment is not supported by the underlying statutes and relevant case law and have challenged the full amount of the claim. The range of reasonably possible loss is considered to be zero up to the full \$3 million assessment. However, based on the strength of the subsidiary's defenses, no loss within that range is considered probable at this time and no liability has been recorded at March 31, 2021.

In both states, the process for reaching a final resolution to the assessments is expected to be lengthy, and management is not currently able to predict when either case will be concluded. Should the subsidiary ultimately be required to pay any tax, interest, or penalties in either case, the portion paid for tax would generate value-added tax credits that the subsidiary may be able to recover.

*Other Legal and Tax Matters*

Various subsidiaries of the Company are involved in other litigation and tax examinations incidental to their business activities. While the outcome of these matters cannot be predicted with certainty, management is vigorously defending the matters and does not currently expect that any of them will have a material adverse effect on the Company's business or financial position. However, should one or more of these matters be resolved in a manner adverse to management's current expectation, the effect on the Company's results of operations for a particular fiscal reporting period could be material.

**NOTE 17. OPERATING SEGMENTS**

As a result of recent acquisitions of plant-based ingredients companies in fiscal year 2020 and 2021, during the fiscal year ended March 31, 2021 management evaluated the Company's global business activities, including product and service offerings to its customers, as well as senior management's operational and financial responsibilities. This assessment included an analysis of how its chief operating decision maker measures business performance and allocates resources. As a result of this analysis, senior management determined the Company conducts operations across two reportable operating segments, Tobacco Operations and Ingredients Operations.

The Tobacco Operations segment activities involve selecting, procuring, processing, packing, storing, shipping, and financing leaf tobacco for sale to, or for the account of, manufacturers of consumer tobacco products throughout the world. Through various operating subsidiaries located in tobacco-growing countries around the world and significant ownership interests in unconsolidated affiliates, the Company processes and/or sells flue-cured and burley tobaccos, dark air-cured tobaccos, and oriental tobaccos. Flue-cured, burley, and oriental tobaccos are used principally in the manufacture of cigarettes, and dark air-cured tobaccos are used mainly in the manufacture of cigars, pipe tobacco, and smokeless tobacco products. Some of these tobacco types are also increasingly used in the manufacture of non-combustible tobacco products that are intended to provide consumers with an alternative to traditional combustible products. The Tobacco Operations segment also provides physical and chemical product testing and smoke testing for tobacco customers. A substantial portion of the Company's Tobacco Operations' revenues are derived from sales to a limited number of large, multinational cigarette and cigar manufacturers.

The Ingredients Operations segment provides its customers with a broad variety of plant-based ingredients for both human and pet consumption. The Ingredients Operations segment utilizes a variety of value-added manufacturing processes converting raw materials into a wide spectrum of fruit and vegetable juices, concentrates, and dehydrated products. Customers for the Ingredients Operations segment include large multinational food and beverage companies, as well as smaller independent entities. FruitSmart, Silva, and CIFI are the primary operations for the Ingredients Operations segment. FruitSmart manufactures fruit and vegetable juices, purees, concentrates, essences, fibers, seeds, seed oils, and seed powders. Silva is primarily a dehydrated product manufacturer of fruit and vegetable based flakes, dices, granules, powders, and blends. In December 2020, the Company announced the wind-down of CIFI, a greenfield operation that primarily manufactured both dehydrated and liquid sweet potato products. See Note 4 for additional information about the wind-down of CIFI.

Universal incurs overhead expenses related to senior management, sales, finance, legal, and other functions that are centralized at its corporate headquarters, as well as functions performed at several sales and administrative offices around the world. These overhead expenses are currently allocated to the reportable operating segments, generally on the basis of volumes planned to be purchased and/or processed. Management believes this method of allocation is currently representative of the value of the related services provided to the operating segments. The Company currently evaluates the performance of its segments based on operating income after allocated overhead expenses, plus equity in the pretax earnings of unconsolidated affiliates.

**UNIVERSAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Reportable segment data as of, or for, the fiscal years ended March 31, 2021, 2020, and 2019, is as follows, including a recast of the new reportable operating segments presentation for all periods:

	Sales and Other Operating Revenues			Operating Income		
	Fiscal Year Ended March 31,			Fiscal Year Ended March 31,		
	2021	2020	2019	2021	2020	2019
Tobacco Operations	\$ 1,841,837	\$ 1,887,084	\$ 2,222,246	\$ 168,832	\$ 146,637	\$ 195,383
Ingredients Operations	141,520	22,895	4,907	367	(8,516)	(8,611)
Subtotal	1,983,357	1,909,979	2,227,153	169,199	138,121	186,772
Deduct: Equity in pretax earnings of unconsolidated affiliates <sup>(1)</sup>				(2,985)	(4,211)	(5,299)
Restructuring and impairment costs <sup>(2)</sup>				(22,577)	(7,543)	(20,304)
Add: Other income <sup>(3)</sup>				4,173	—	—
Consolidated total	<u>\$ 1,983,357</u>	<u>\$ 1,909,979</u>	<u>\$ 2,227,153</u>	<u>\$ 147,810</u>	<u>\$ 126,367</u>	<u>\$ 161,169</u>
	Segment Assets			Accounts Receivable, net		
	March 31,			March 31,		
	2021	2020	2019	2021	2020	2019
Tobacco Operations	\$ 2,002,059	\$ 1,985,732	\$ 2,108,641	\$ 336,876	\$ 330,367	\$ 367,579
Ingredients Operations	339,865	135,189	24,543	30,606	10,344	531
Consolidated total	<u>\$ 2,341,924</u>	<u>\$ 2,120,921</u>	<u>\$ 2,133,184</u>	<u>\$ 367,482</u>	<u>\$ 340,711</u>	<u>\$ 368,110</u>
	Goodwill, net			Intangibles, net		
	March 31,			Fiscal Year Ended March 31,		
	2021	2020	2019	2021	2020	2019
Tobacco Operations	\$ 98,044	\$ 97,963	\$ 97,907	\$ 82	\$ 59	\$ 87
Ingredients Operations	75,007	28,863	—	72,222	17,802	—
Consolidated total	<u>\$ 173,051</u>	<u>\$ 126,826</u>	<u>\$ 97,907</u>	<u>\$ 72,304</u>	<u>\$ 17,861</u>	<u>\$ 87</u>
	Capital Expenditures			Depreciation and Amortization		
	Fiscal Year Ended March 31,			Fiscal Year Ended March 31,		
	2021	2020	2019	2021	2020	2019
Tobacco Operations	\$ 46,037	\$ 35,175	\$ 38,206	\$ 33,895	\$ 35,251	\$ 35,449
Ingredients Operations	20,117	52	554	10,838	3,128	1,655
Consolidated total	<u>\$ 66,154</u>	<u>\$ 35,227</u>	<u>\$ 38,760</u>	<u>\$ 44,733</u>	<u>\$ 38,379</u>	<u>\$ 37,104</u>

<sup>(1)</sup> Equity in pretax earnings of unconsolidated affiliates is included in reportable segment operating income, but is reported below consolidated operating income and excluded from that total in the consolidated statements of income.

<sup>(2)</sup> Restructuring and impairment costs are excluded from reportable segment operating income, but are included in consolidated operating income in the consolidated statements of income (see Note 4).

<sup>(3)</sup> Other income represents the reversal of a portion of the contingent consideration liability associated with the acquisition of FruitSmart. See Note 2 for additional information.

**UNIVERSAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Geographic data as of, or for, the fiscal years ended March 31, 2021, 2020, and 2019, is presented below. Sales and other operating revenues are attributed to individual countries based on the final destination of the shipment. Long-lived assets generally consist of net property, plant, and equipment, goodwill, and other intangibles.

**Geographic Data**

	<b>Sales and Other Operating Revenues</b>		
	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
United States .....	\$ 369,074	\$ 221,428	\$ 227,771
Belgium .....	366,476	361,889	390,433
Poland .....	97,001	84,011	145,478
Germany .....	94,519	104,525	166,397
Philippines .....	94,493	68,143	69,820
China .....	52,837	105,683	115,174
Mexico .....	51,448	35,475	64,700
All other countries .....	857,509	928,825	1,047,380
Consolidated total .....	<u>\$ 1,983,357</u>	<u>\$ 1,909,979</u>	<u>\$ 2,227,153</u>

	<b>Long-Lived Assets</b>		
	<b>March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
United States .....	\$ 266,258	\$ 145,764	\$ 81,270
Brazil .....	134,909	138,157	139,624
Mozambique .....	44,206	42,964	45,051
All other countries .....	149,492	132,955	134,543
Consolidated total .....	<u>\$ 594,865</u>	<u>\$ 459,840</u>	<u>\$ 400,488</u>

**UNIVERSAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table summarizes the changes in the balances for each component of accumulated other comprehensive income (loss) attributable to the Company for the fiscal years ended March 31, 2021, 2020, and 2019:

<b>(in thousands of dollars)</b>	<b>Fiscal Year Ended March 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Foreign currency translation:</b>			
Balance at beginning of year.....	\$ (42,923)	\$ (40,101)	\$ (23,942)
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) on foreign currency translation (net of tax (expense) benefit of \$180 in 2020).....	8,272	(3,066)	(16,316)
Less: Net loss on foreign currency translation attributable to noncontrolling interests.....	(484)	244	157
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes.....	<u>7,788</u>	<u>(2,822)</u>	<u>(16,159)</u>
Balance at end of year.....	<u>\$ (35,135)</u>	<u>\$ (42,923)</u>	<u>\$ (40,101)</u>
<b>Foreign currency hedge:</b>			
Balance at beginning of year.....	\$ (12,226)	\$ (376)	\$ (35)
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) on derivative instruments (net of tax (expense) benefit of \$(130), \$2,880 and \$602).....	1,791	(12,391)	(6,490)
Reclassification of net (gain) loss to earnings (net of tax expense (benefit) of \$(2,726), \$136, and \$(640)) <sup>(1)</sup> .....	<u>10,021</u>	<u>541</u>	<u>6,149</u>
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes.....	<u>11,812</u>	<u>(11,850)</u>	<u>(341)</u>
Balance at end of year.....	<u>\$ (414)</u>	<u>\$ (12,226)</u>	<u>\$ (376)</u>
<b>Interest rate hedge:</b>			
Balance at beginning of year.....	\$ (27,402)	\$ (934)	\$ 6,528
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) on derivative instruments (net of tax (expense) benefit of \$(637), \$6,801, and \$1,574).....	2,396	(25,588)	(5,922)
Reclassification of net (gain) loss to earnings (net of tax expense (benefit) of \$(1,469), \$234, and \$409) <sup>(2)</sup> .....	<u>5,526</u>	<u>(880)</u>	<u>(1,540)</u>
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes.....	<u>7,922</u>	<u>(26,468)</u>	<u>(7,462)</u>
Balance at end of year.....	<u>\$ (19,480)</u>	<u>\$ (27,402)</u>	<u>\$ (934)</u>
<b>Pension and other postretirement benefit plans:</b>			
Balance at beginning of year.....	\$ (69,046)	\$ (54,280)	\$ (42,615)
Other comprehensive income (loss) attributable to Universal Corporation:			
Net gain (loss) arising during the year (net of tax (expense) benefit of \$(3,706), \$4,715, and \$4,073) <sup>(3)</sup> .....	13,627	(16,810)	(13,927)
Amortization included in earnings (net of tax benefit of \$895, \$554, and \$628) <sup>(4)</sup> .....	<u>3,411</u>	<u>2,044</u>	<u>2,262</u>
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes.....	<u>17,038</u>	<u>(14,766)</u>	<u>(11,665)</u>
Balance at end of year.....	<u>\$ (52,008)</u>	<u>\$ (69,046)</u>	<u>\$ (54,280)</u>
Total accumulated other comprehensive income (loss) at end of year.....	<u>\$ (107,037)</u>	<u>\$ (151,597)</u>	<u>\$ (95,691)</u>

(1) Gains (losses) on foreign currency cash flow hedges related to forecast purchases of tobacco and crop input sales are reclassified from accumulated other comprehensive income (loss) to cost of goods sold when the tobacco is sold to customers. See Note 11 for additional information.

(2) Gain (loss) on interest rate cash flow hedges is reclassified from accumulated other comprehensive income (loss) to interest expense when the related interest payments are made on the debt for open interest rate swap agreements, or as amortized to interest expense over the period to original maturity for terminated swap agreements. See Note 11 for additional information.

(3) These items arise from the remeasurement of the assets and liabilities of the Company's defined benefit pension and other postretirement benefit plans. Those remeasurements are made on an annual basis at the end of the fiscal year. See Note 13 for additional information.

(4) This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost. See Note 13 for additional information.

## **Report of Ernst & Young LLP, Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Universal Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Universal Corporation (the Company) as of March 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2021, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 28, 2021 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Allowance for Advances to Suppliers***

#### *Description of the Matter*

The Company's short-term and long-term advances to suppliers totaled approximately \$144 million as of March 31, 2021, and the allowances totaled \$18 million. As discussed in Note 1 of the financial statements, the Company provides agronomy services and seasonal advances of seed, fertilizer, and other supplies to tobacco farmers for crop production. These advances are repaid through the delivery of tobacco to the Company. Management determined the allowance based on assumptions including the assessment of historical loss information and crop projections.

Auditing Management's estimate for the allowance on advances to suppliers was complex and involved subjective auditor judgment as the estimate relies on a number of factors that are affected by market and economic conditions outside the Company's control. There is uncertainty associated with the assumptions used which could have a significant effect on the allowance estimate.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's internal controls over the allowance on the advances to suppliers. For example, we tested controls over the supplier advance approval and Management's review and approval of the models used to calculate the allowance. We also tested controls used by Management to evaluate the data used in making the estimates for completeness and accuracy.

To test the allowance for advances to suppliers, our audit procedures included, among others, evaluating the significant assumptions used in the allowance calculation. For example, we compared historical loss information to Management's estimate of projected crop yield and analyzed the sensitivity of significant assumptions to evaluate the changes in the allowance that would result from changes in the assumptions. We analyzed subsequent events to identify potential sources of contrary information to Management's assumptions.

### ***Allowance for Recoverable Value-Added Tax ("VAT") Credits***

#### *Description of the Matter*

The Company's gross balance of recoverable value-added tax ("VAT") credits totaled approximately \$49 million as of March 31, 2021, and the related allowance totaled approximately \$19 million. As discussed in Note 1 of the financial statements, in many foreign countries, the Company pays and receives a significant amount of VAT on purchases and sales of tobacco and tobacco related material. Items subject to a VAT vary from jurisdiction to jurisdiction as do the rates at which the tax is assessed. Some jurisdictions allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process may take an extended period of time and it is not uncommon for refund applications to be challenged or rejected. Some jurisdictions also permit companies to sell or transfer unused VAT credits to third parties in private transactions although the proceeds realized may be heavily discounted from the face value of the credits. Management applied judgment in calculating the valuation allowance to estimate the credits that are not expected to be recovered. Auditing Management's estimate of the VAT allowance was complex and involved a high degree of subjectivity as the estimate relies on a number of factors including interpretations of applicable tax laws and regulations as well as economic and political conditions outside the Company's control. There is uncertainty associated with the assumptions used which could have a significant effect on the estimate.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's internal controls over the allowance on the VAT. For example, we tested controls over Management's review and approval of the models used in the allowance and the completeness and accuracy of the data inputs and outputs used in the calculation.

To test the VAT allowance estimate, our audit procedures included, among others, evaluating the significant assumptions used to estimate the VAT allowance and assessing the historical accuracy of Management's estimates. For example, we evaluated whether the historical loss of credits used in Management's calculation was representative of the current collectability of the credits. We analyzed the sensitivity of significant assumptions to evaluate the changes in the allowance that that would result from changes in the assumptions and we considered subsequent events to identify potential sources of contrary information to Management's assumptions.

***Accounting for Acquisition of Silva International, Inc.***

*Description of  
the Matter*

As described in Note 1 and 2 to the consolidated financial statements, on October 1, 2020 the Company acquired 100% of the capital stock of Silva International, Inc. (“Silva”) for approximately \$164 million in cash and \$5.9 million of working capital on-hand at the date of acquisition. The acquisition of Silva was accounted for as a business combination.

Auditing the Company's accounting for its business combination was complex due to the significant estimation required by Management to determine the fair value of identifiable intangible assets including customer relationships (\$53 million). Significant estimation was required due to the application of the valuation models and assumptions used by Management to measure the fair value of the customer-related intangible asset. The significant assumptions used in determining the fair value included the discount rate and forecasted results (e.g., revenue growth rates and operating profit margins).

*How We  
Addressed the  
Matter in Our  
Audit*

We tested the Company's controls over its accounting for business combinations. For example, we tested controls over the customer-related intangible asset acquired, including Management’s review of the valuation models and significant assumptions.

To test the estimated fair value of the acquired customer-related intangible asset, our audit procedures included, among others, assessing the significant assumptions used in the estimated fair value of the customer-related intangible asset. For example, we tested the completeness and accuracy of the underlying data and compared the significant assumptions to current industry, market and economic trends, historical results of the acquired business, and other guidelines used by companies within the same industry. We involved our valuation specialists to assist in evaluating the Company's use of its valuation models. We performed a sensitivity analysis of the significant assumptions to evaluate the change in the fair values that would result from changes in assumptions.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1971.  
Richmond, Virginia  
May 28, 2021



**Report of Ernst & Young LLP, Independent Registered Public Accounting Firm,  
on Internal Control Over Financial Reporting**

To the Shareholders and the Board of Directors of Universal Corporation

**Opinion on Internal Control over Financial Reporting**

We have audited Universal Corporation's internal control over financial reporting as of March 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Universal Corporation, (the Company) maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2021, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 report dated May 28, 2021 expressed an unqualified opinion thereon.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Silva International, Inc., which is included in the 2021 consolidated financial statements of the Company and constituted 8.5% and 12.5% of total and net assets, respectively, as of March 31, 2021 and 3.1% and 5.7% of net sales and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Silva International, Inc.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definitions and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Richmond, Virginia

May 28, 2021

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

For the three years ended March 31, 2021, there were no changes in independent auditors, nor were there any disagreements between the Company and its independent auditors on any matter of accounting principles, practices, or financial disclosures.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer evaluated, with the participation of the Company's management, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), as of the end of the period covered by this Annual Report. Based on this evaluation, the Company's management, including its Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

#### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of the consolidated financial statements. Due to inherent limitations, internal control over financial reporting may not prevent or detect all errors or misstatements in the financial statements, and even control procedures that are determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

As required by Exchange Act Rule 13a-15(c), the Company's Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2021. The evaluation was based on the criteria set forth in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("the COSO criteria"). We have excluded Silva International, Inc. (Silva), our wholly-owned subsidiary which is included in our Consolidated Financial Statements, from our assessment of internal control over financial reporting as of March 31, 2021. Silva represented \$199.6 million (8.5%) of consolidated total assets as of March 31, 2021 and \$60.5 million (3.1%) of consolidated sales and other operating revenues for the fiscal year then ended. Based on this assessment, the Company's management concluded that the Company's internal control over financial reporting was effective at the reasonable assurance level as of March 31, 2021.

The Company's independent registered public accounting firm, Ernst & Young LLP, has audited the Company's internal control over financial reporting as of March 31, 2021. Their report on this audit appears on page 91 of this Annual Report.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None.

### PART III

#### Item 10. Directors, Executive Officers, and Corporate Governance

Except as to the matters set forth below, information required by this Item is incorporated herein by reference to the Company's 2021 Proxy Statement.

The following are executive officers of the Company as of May 28, 2021:

<b>Name and Age</b>	<b>Position</b>	<b>Business Experience During Past The Five Years</b>
G. C. Freeman, III (58)	Chairman, President, and Chief Executive Officer	Mr. Freeman was elected Chairman of the Board in August 2008, Chief Executive Officer effective April 2008, President in December 2006, and Vice President in November 2005. Mr. Freeman served as General Counsel and Secretary from February 2001 until November 2005 and has been employed with the Company since 1997.
A. L. Hentschke (51)	Senior Vice President and Chief Operating Officer	Mr. Hentschke was elected Senior Vice President and Chief Operating Officer in April 2015. From January 2013 to April 2015, he served as Executive Vice President of Universal Leaf Tobacco Company, Incorporated ("Universal Leaf"). From November 2009 to January 2013, Mr. Hentschke served as President and Chief Executive Officer of Universal Leaf Tabacos, Limitada, the Company's operating subsidiary in Brazil. He has been employed with the Company and its affiliates since 1991.
J. C. Kroner (53)	Senior Vice President and Chief Financial Officer	Mr. Kroner was elected Senior Vice President and Chief Financial Officer effective September 2018. Mr. Kroner was elected Senior Vice President in February 2018. He served as Senior Vice President of Universal Leaf from September 2014 to September 2018. He served as Vice President from October 2011 to September 2014. He has been employed with the Company since July 1993.
T. G. Broome (67)	Executive Vice President and Sales Director, Universal Leaf Tobacco Company, Inc.	Mr. Broome was elected Executive Vice President and Sales Director, Universal Leaf, in October 2012. From April 2011 through October 2012, Mr. Broome served as Executive Vice President. From September 1998 through March 2011, Mr. Broome served as Senior Vice President-Sales. He has been employed with the Company since 1994.
P. D. Wigner (52)	Vice President, General Counsel and Secretary	Mr. Wigner was elected Vice President in August 2007, and General Counsel and Secretary in November 2005 and also served as Chief Compliance Officer from November 2007 until September 2012. Mr. Wigner served as Senior Counsel of Universal Leaf from November 2004 until November 2005. He has been employed with the Company since 2003.
C. H. Claiborne (60)	Vice President and Assistant Secretary	Mrs. Claiborne was elected Vice President and Assistant Secretary effective February 2018. She served as Assistant Secretary from 2001 to February 2018. From October 2004 to February 2018, Mrs. Claiborne served as Vice President, Associate General Counsel, and Secretary of Universal Leaf. She has been employed with the Company since December 1999.
C. C. Formacek (60)	Vice President and Treasurer	Ms. Formacek was elected Vice President and Treasurer effective April 2012. Ms. Formacek served as Treasurer of Universal Leaf from April 2011 through March 2012. She joined the Company in September 2009 and served as Assistant Treasurer of Universal Leaf from that time through March 2011.
S.J. Bleicher (44)	Vice President and Controller	Mr. Bleicher was elected Vice President and Controller in June 2019. Mr. Bleicher joined the Company in August 2014 and served as Assistant Controller through May 2019.

There are no family relationships between any of the above officers.

The Company has a Code of Conduct that includes the NYSE requirements for a “Code of Business Conduct and Ethics” and the SEC requirements for a “Code of Ethics for Senior Financial Officers.” The Code of Conduct is applicable to all officers, employees, and outside directors of the Company, including the principal executive officer, principal financial officer, and principal accounting officer. A copy of the Code of Conduct is available through the “Corporate Governance-Overview” section of the Company’s website at [www.universalcorp.com](http://www.universalcorp.com). If the Company amends a provision of the Code of Conduct, or grants a waiver from any such provision to a director or executive officer, the Company will disclose such amendments and the details of such waivers on the Company’s website [www.universalcorp.com](http://www.universalcorp.com) to the extent required by the SEC or the NYSE.

The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is contained under the captions “Corporate Governance and Committees—Committees of the Board—Compensation Committee,” “Corporate Governance and Committees—Committees of the Board—Audit Committee” of the Company’s 2021 Proxy Statement and such information is incorporated by reference herein.

**Item 11. Executive Compensation**

Refer to the captions “Executive Compensation” and “Directors’ Compensation” in the Company’s 2021 Proxy Statement, which information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Refer to the caption “Stock Ownership” in the Company’s 2021 Proxy Statement, which information is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Refer to the caption “Certain Transactions” in the Company’s 2021 Proxy Statement, which information is incorporated herein by reference. The information required by Item 407(a) of Regulation S-K is contained under the caption “Corporate Governance and Committees—Director Independence” of the Company’s 2021 Proxy Statement and such information is incorporated by reference herein.

**Item 14. Principal Accounting Fees and Services**

Refer to the captions “Audit Information – Fees of Independent Auditors” and “Audit Information – Pre-Approval Policies and Procedures” in the Company’s 2021 Proxy Statement, which information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

(a) The following are filed as part of this Annual Report:

1. Financial Statements.

Consolidated Statements of Income for the Fiscal Years Ended March 31, 2021, 2020, and 2019  
Consolidated Statements of Comprehensive Income for the Fiscal Years Ended March 31, 2021, 2020, and 2019  
Consolidated Balance Sheets at March 31, 2021 and 2020  
Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2021, 2020, and 2019  
Consolidated Statements of Changes in Shareholders' Equity for the Fiscal Years Ended March 31, 2021, 2020, and 2019  
Notes to Consolidated Financial Statements for the Fiscal Years Ended March 31, 2021, 2020, and 2019  
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm  
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on Internal Control Over Financial Reporting

2. Financial Statement Schedules.

Schedule II – Valuation and Qualifying Accounts

3. Exhibits. The exhibits are listed in the Exhibit Index immediately prior to the signature pages to this Annual Report.

(b) Exhibits

The response to this portion of Item 15 is submitted as a separate section to this Annual Report.

(c) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts appears on the following page of this Annual Report. All other schedules are not required under the related instructions or are not applicable and therefore have been omitted.

### Item 16. Form 10-K Summary

None.

**Schedule II - Valuation and Qualifying Accounts**  
**Universal Corporation**  
**Fiscal Years Ended March 31, 2021, 2020, and 2019**

Description	Balance at Beginning of Year	Net Additions (Reversals) Charged to Expense	Additions Charged to Other Accounts	Deductions <sup>(1)</sup>	Balance at End of Year
(in thousands of dollars)					
<b>Fiscal Year Ended March 31, 2019:</b>					
Allowance for doubtful accounts (deducted from accounts receivable).....	\$ 1,783	\$ 1,358	\$ —	\$ (156)	\$ 2,985
Allowance for supplier accounts (deducted from advances to suppliers and other noncurrent assets).....	21,720	(2,339)	—	(1,276)	18,105
Allowance for recoverable taxes (deducted from other current assets and other noncurrent assets).....	14,679	3,535	—	(1,033)	17,181
<b>Fiscal Year Ended March 31, 2020:</b>					
Allowance for doubtful accounts (deducted from accounts receivable).....	\$ 2,985	\$ (128)	\$ —	\$ (463)	\$ 2,394
Allowance for supplier accounts (deducted from advances to suppliers and other noncurrent assets).....	18,105	937	—	(2,614)	16,428
Allowance for recoverable taxes (deducted from other current assets and other noncurrent assets).....	17,181	(2,586)	—	4,183	18,778
<b>Fiscal Year Ended March 31, 2021:</b>					
Allowance for doubtful accounts (deducted from accounts receivable).....	\$ 2,394	\$ 304	\$ —	\$ (1,446)	\$ 1,252
Allowance for supplier accounts (deducted from advances to suppliers and other noncurrent assets).....	16,428	5,534	—	(4,145)	17,817
Allowance for recoverable taxes (deducted from other current assets and other noncurrent assets).....	18,778	799	—	(408)	19,169

<sup>(1)</sup> Includes direct write-offs of assets and currency remeasurement.

## EXHIBIT INDEX

- 3.1 [Amended and Restated Articles of Incorporation, effective August 9, 2011 \(incorporated herein by reference to the Registrant's Current Report on Form 8-K Registration Statement filed August 9, 2011, File No. 001-00652\).](#)
- 3.2 [Amended and Restated Bylaws \(as of April 9, 2019\) \(incorporated herein by reference to the Registrant's Current Report on Form 8-K dated April 12, 2019, File No. 001-00652\).](#)
- 4.1 [Description of Registrant's Securities Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.\\*](#)
- 4.2 Indenture between the Registrant and Chemical Bank, as trustee (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated February 25, 1991, File No. 001-00652).
- 4.3 [Specimen Common Stock Certificate \(incorporated herein by reference to the Registrant's Amendment No. 1 to Registrant's Form 8-A Registration Statement, dated May 7, 1999, File No. 001-00652\).](#)
- 10.1 [Form of Universal Leaf Tobacco Company, Incorporated Executive Life Insurance Agreement \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, File No. 001-00652\).](#)
- 10.2 Universal Leaf Tobacco Company, Incorporated Deferred Income Plan (incorporated herein by reference to the Registrant's Report on Form 8-K, dated February 8, 1991, File No. 001-00652).
- 10.3 Universal Leaf Tobacco Company, Incorporated Benefit Replacement Plan (incorporated herein by reference to the Registrant's Report on Form 8-K, dated February 8, 1991, File No. 001-00652).
- 10.4 [Universal Leaf Tobacco Company, Incorporated 1994 Benefit Replacement Plan \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, File No. 001-00652\).](#)
- 10.5 [Universal Leaf Tobacco Company, Incorporated 1996 Benefit Restoration Plan \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, File No. 001-00652\).](#)
- 10.6 [Universal Leaf Tobacco Company, Incorporated 1994 Deferred Income Plan, amended and restated as of July 1, 1998 \(incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 001-00652\).](#)
- 10.7 [Universal Corporation Outside Directors' Deferred Income Plan, restated as of October 1, 1998 \(incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 001-00652\).](#)
- 10.8 [Revised Form of Universal Corporation Non-Employee Director Restricted Stock Agreement \(incorporated herein by reference to the Registrant's Current Report on Form 8-K dated June 9, 2010, File No. 001-00652\).](#)
- 10.9 [Form Change of Control Agreement \(incorporated herein by reference to the Registrant's Current Report on Form 8-K filed November 10, 2008, File No. 001-00652\).](#)
- 10.10 [Universal Corporation Director's Charitable Award Program \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, File No. 001-00652\).](#)
- 10.11 [Universal Corporation 1997 Executive Stock Plan, as amended on August 7, 2003 \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, File No. 001-00652\).](#)
- 10.12 [Universal Corporation 2002 Executive Stock Plan, as amended on August 7, 2003 \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2003, File No. 001-00652\).](#)
- 10.13 [Form of Restricted Stock Units Award Agreement \(incorporated herein by reference to the Registrant's Current Report on Form 8-K filed November 10, 2008, File No. 001-00652\).](#)

- 10.14 [Universal Corporation 2007 Amended and Restated Stock Incentive Plan effective August 7, 2012 \(incorporated herein by reference to Exhibit A to the Registrant's definitive proxy statement filed June 28, 2012, File No. 001-00652\).](#)
- 10.15 [Amended and Restated Universal Corporation Executive Officer Annual Incentive Plan \(incorporated herein by reference to the Registrant's definitive proxy statement filed July 24, 2019, File No. 001-00652\).](#)
- 10.16 [Universal Corporation 2017 Stock Incentive Plan \(incorporated herein by reference to the Registrant's definitive proxy statement filed June 26, 2017 \(File No. 001-00652\).](#)
- 10.17 [Form of Universal Corporation 2010 Restricted Stock Units Agreement with Schedule of Awards to named executive officers \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2010, File No. 001-00652\).](#)
- 10.18 [Universal Leaf Tobacco Company, Incorporated Deferred Income Plan III, amended and restated as of December 31, 2008 \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2010, File No. 001-00652\).](#)
- 10.19 [Universal Corporation Outside Directors' Deferred Income Plan III, amended and restated as of December 31, 2008, and amended as of February 1, 2010 \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2010, File No. 001-00652\).](#)
- 10.20 [Form of Universal Corporation 2011 Restricted Stock Units Award Agreement \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2011, File No. 001-00652\).](#)
- 10.21 [Form of Universal Corporation Performance Share Award Agreement \(incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2011, File No. 001-00652\).](#)
- 10.22 [Credit Agreement dated December 20, 2018 among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank and AgFirst Farm Credit Bank, as Co-Syndication Agents and Keybank National Association and Capital One, National Association, as Co-Documentation Agents \(incorporated herein by reference to the Registrant's Current Report on Form 8-K dated December 21, 2018 \(December 20, 2018\), File No. 001-00652\).](#)
- 10.23 [Stock Purchase Agreement, dated as of November 20, 2019, by and among Universal Corporation, FruitSmart, Inc., the Sellers named therein and James P. Early, as the Sellers' Representative \(incorporated herein by reference to the Registrant's Current Report on Form 8-K, filed November 20, 2019, File No. 001-00652\)](#)
- 10.24 [Purchase Agreement, dated as of September 8, 2020, by and among Universal Corporation, Silva International, Inc., the Sellers named therein, Torsten Steinhaus, the Representative \(incorporated herein by reference to the Registrant's Current Report on Form 8-K, filed September 8, 2020, File No. 001-00652\)](#)
- 10.25 [Executive change in control severance policy \(incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, File No. 001-00652\)](#)
- 10.26 [Amendment No. 1 to the Credit Agreement, dated as of December 17, 2020, among Universal Corporation, as borrower, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, Truist Bank and AgFirst Farm Credit Bank, as Co-Syndication Agents and Keybank National Association and Capital One National Association as Co-Documentation Agents \(incorporated herein by reference to the Registrant's Current Report on Form 8-K, filed December 18, 2020, File No. 001-00652\)](#)
- 21 [Subsidiaries of the Registrant.\\*](#)
- 23 [Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.\\*](#)
- 31.1 [Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- 31.2 [Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- 32.1 [Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.\\*](#)
- 32.2 [Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.\\*](#)



101 Interactive Data Files (submitted electronically herewith)\*

101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. 101.SCH XBRL Taxonomy Extension Schema Document 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document 101.DEF XBRL Taxonomy Extension Definition Linkbase Document 101.LAB XBRL Taxonomy Extension Label Linkbase Document 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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\* Filed herewith.





**Universal**

## SHAREHOLDER INFORMATION



### Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, August 3, 2021. We intend to hold the meeting at the offices of the Company, 9201 Forest Hill Avenue, Richmond, Virginia. We are actively monitoring the ongoing COVID-19 pandemic, and we reserve the right to instead hold the meeting solely by means of remote communication.

### Independent Registered Public Accounting Firm

Ernst & Young LLP  
The Edgeworth Building  
2100 East Cary Street, Suite 201  
Richmond, Virginia 23223

### Investor Relations

Contact:

Candace C. Formacek  
Vice President and Treasurer

Jennifer S. Rowe  
Assistant Vice President, Capital Markets  
(804) 254-3789

Information Requests:

(804) 254-3789

or

Email: [investor@universalleaf.com](mailto:investor@universalleaf.com)

### Dividend Payments

Dividend declarations are subject to approval by the Company's Board of Directors. Dividends on the Company's common stock have traditionally been paid quarterly in February, May, August, and November to shareholders of record on the second Monday of the previous month.

### SEC Form 10-K

Shareholders may obtain additional copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on its website or by writing to the Treasurer of the Company.

### Stock Listed

New York Stock Exchange

### Stock Symbol

UVV

### Dividend Reinvestment Plan

The Company offers to its common shareholders an automatic dividend reinvestment and cash payment plan to purchase additional shares. The Company bears all brokerage and service fees. Booklets describing the plan in detail are available upon request.

### Transfer Agent & Registrar & Dividend Reinvestment Plan Agent

Broadridge Corporate Issuer Solutions  
P.O. Box 1342

Brentwood, New York 11717

Toll-Free: (866) 804-4445

Outside U.S.: (702) 414-6868

Email: [shareholder@broadridge.com](mailto:shareholder@broadridge.com)

or

Universal Corporation

Investor Relations

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